Corporate Governance

Corporate Governance Policy

The Shiseido Group including the Company has established "BEAUTY INNOVATIONS FOR A BETTER WORLD" as OUR MISSION in its Corporate Philosophy THE SHISEIDO PHILOSOPHY, and de nes the corporate governance as our "platform to realize sustainable growth through fulfilling OUR MISSION".

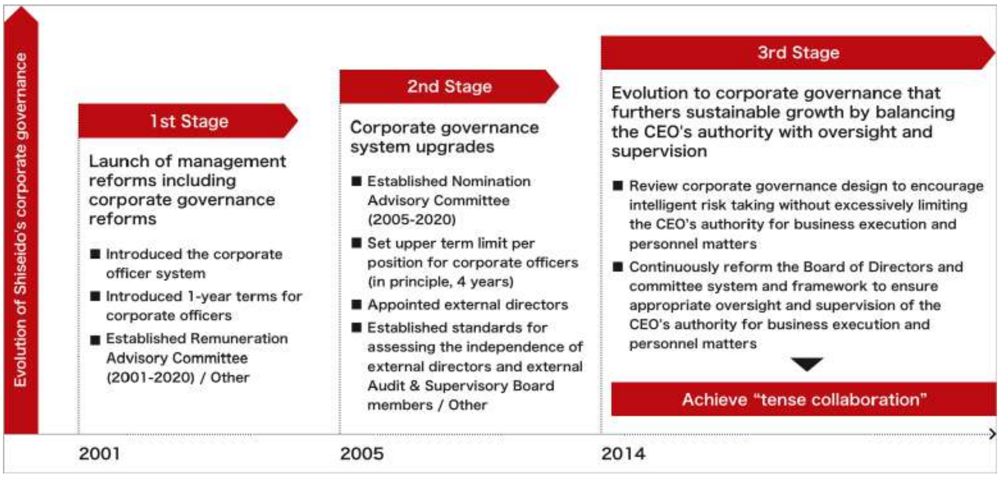
The Company is committed to maintaining and improving management transparency, fairness and speed, by putting into practice and reinforcing the corporate governance, and strives to maximize medium- and long-term corporate and shareholder value through dialogues with all stakeholders, "employees," "consumers," "business partners," "shareholders," and "society and the Earth." In addition, while fulfilling social responsibilities, the Company aims to achieve optimized distribution of values to respective stakeholders.

Corporate Governance System

Process of Corporate Governance Evolution

The Shiseido Group including the Company has established "BEAUTY INNOVATIONS FOR A BETTER WORLD" as OUR MISSION in its Corporate Philosophy THE SHISEIDO PHILOSOPHY, and defines the corporate governance as our "platform to realize sustainable growth through fulfilling OUR MISSION".
We began full-fledged initiatives toward strengthening corporate governance in 2001. Our continuous reforms to date can be divided into three stages.

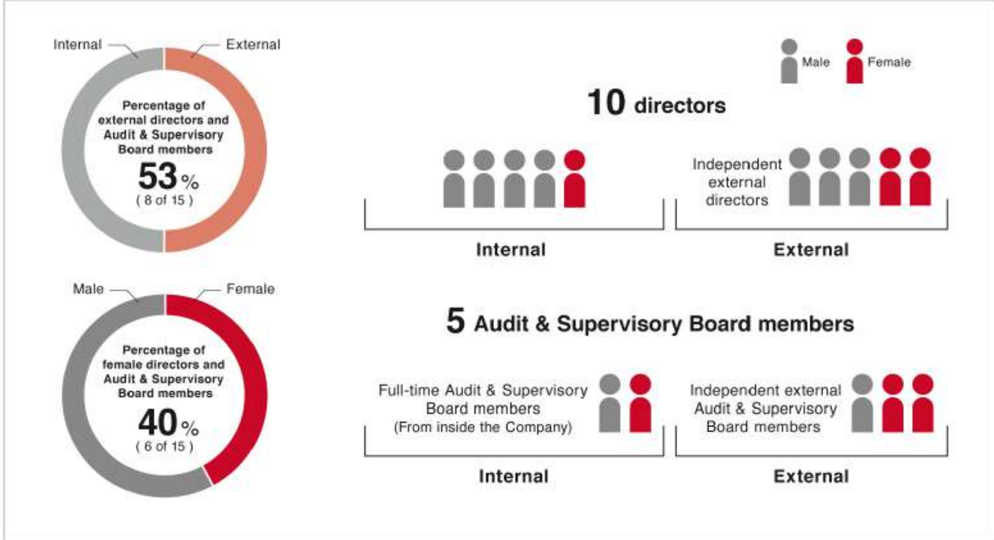
Moving to the Third Stage of Corporate Governance



The first stage initiated a corporate governance reform. Initiatives to separate the functions of management supervision and execution included the introduction of the corporate officer system. At the second stage, we implemented various initiatives to create the framework of our corporate governance such as the establishment of the Nomination & Remuneration Advisory Committee (formerly, "the Nomination Advisory Committee") and the appointment of external directors. In this way, we have set out objective quantitative and pro forma standards. We enhanced the quality of corporate governance by rigorously employing this framework and actively disclosing the outcomes. We have now entered the third stage, in which we are targeting corporate governance that furthers sustainable growth. We aim to achieve "tense collaboration" by balancing management oversight and supervision with the broad authority vested in the CEO, which he or she needs in order to exercise ultimate leadership in Shiseido's global management.

This tense collaboration does not excessively limit or decrease the CEO's authority, but rather, given the broad authority vested in the CEO, establishes a process of regular evaluation of the CEO and management execution by the Board of Directors and other supervisory organs, to whom the CEO is fully accountable. This process also involves regular CEO evaluations by the Nomination & Remuneration Advisory Committee.

Directors and Audit & Supervisory Board Members



Of ten directors, five members(50%) are highly independent external directors who meet the "Criteria for Independence of external directors and Audit & Supervisory Board members" of the Company. The other five directors who serve concurrently as executive officers include one with career background in management outside the Shiseido Group, one with career background in head of finance outside the Shiseido Group, and three with career background in the Shiseido Group. The directors include three females (30%).

Of five Audit & Supervisory Board members, three members (60%) are highly independent external Audit & Supervisory Board members, and two are full-time members with career background in the Shiseido Group. The members include three females (60%).

Of the total 15 directors and Audit & Supervisory Board members, eight members (53%) are highly independent external directors or external Audit & Supervisory Board members, and six members are female (40%).

※ "Criteria for Independence of External Directors and Audit & Supervisory Board Members" and "Criteria for Important Concurrent Position Assumed by Company's Directors and Audit & Supervisory Board Members", etc.

The Company establishes its own "Criteria for Independence of External Directors and Audit & Supervisory Board Members" (the "Criteria") with reference to foreign laws and regulations and listing rules, etc. for the purpose of making objective assessment on the independence of the external directors and Audit & Supervisory Board members.

In connection with selecting candidates for external directors and Audit & Supervisory Board members, the Company places emphasis on a high degree of independence of the candidate from the viewpoint of strengthening corporate governance and accordingly, the Company makes judgment on whether the candidate has a high degree of the independence in accordance with the Criteria.

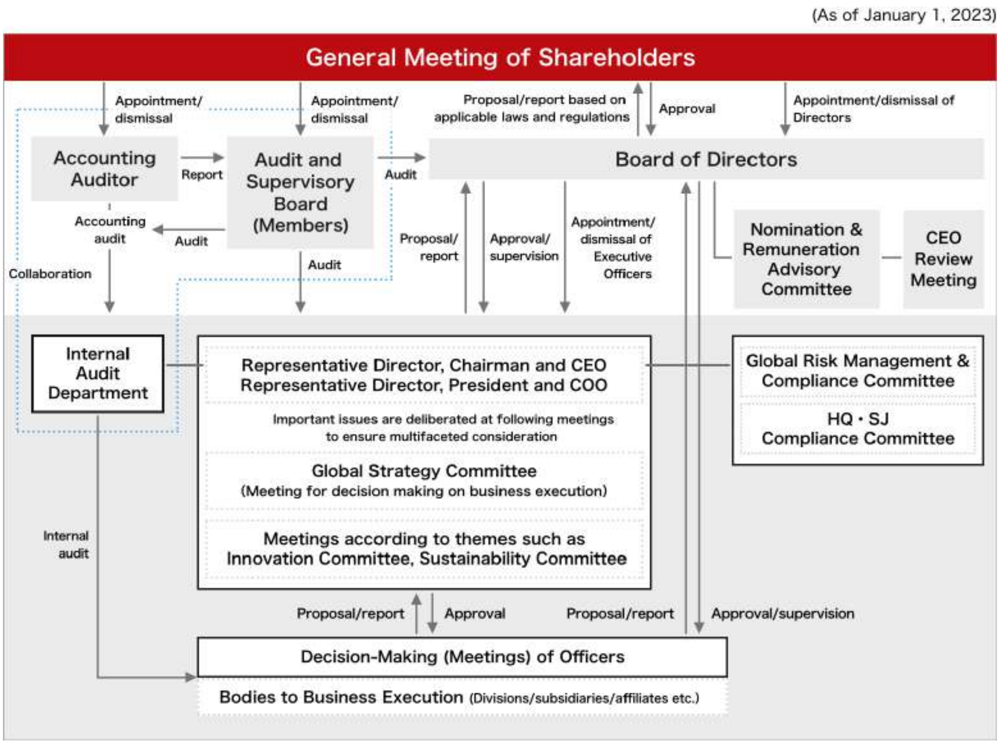
【Overview of "Criteria for Independence of External Directors and Audit & Supervisory Board Members"】

i They are not originally from Shiseido Co., Ltd. (the "Company") or an affiliated company (collectively the "Shiseido Group");
ii They are not a principal counterparty of the Shiseido Group or originally therefrom;
iii They are not a person whose principal counterparty is the Shiseido Group or originally therefrom;
iv They are not a large shareholder of the Company or originally therefrom;
v They are not an executive of a company whose large shareholder is the Shiseido Group or originally therefrom;
vi They are not a lawyer, consultant or the like receiving a large sum of remuneration from the Shiseido Group;
vii They are not a person receiving a large amount of donation from the Shiseido Group or originally therefrom;
viii They are not an accounting auditor of the Company or originally therefrom;
ix They have no one falling under i to viii above among their close relatives;
x They do not belong to any company, etc. where such person is in a state of "cross-assumption of Offices of Directors, etc." with the Company;

xi They are not in any other circumstances in which duties imposed on an independent External Director and Audit & Supervisory Board Member are reasonably deemed not to be achieved.
In order to clarify the status of competitive dealings by the Company's directors and audit & supervisory board members, and to enhance the independence of its external directors and audit & supervisory board members, the Company has set forth the following criteria regarding "important concurrent positions" assumed by its directors and audit & supervisory board members, and describes the status of the concurrent positions assumed by its directors and audit & supervisory board members in the Business Report based thereon.

Skills and Expertise Required of Directors and Audit & Supervisory Board Members

Business Management and Execution Structure



Activities of the Board of Directors, its affiliated bodies, and the Audit & Supervisory Board

Board of Directors

Composed of ten members including five external directors, structured to be small for quick decision-making.

The Board of Directors meets approximately once a month to discuss all significant matters.
In 2022, 13 meetings* were held with an average participation rate of 100% by both internal and external directors.

* In addition to the number of Board of Directors meetings attended shown above, there were three deemed resolutions.

【Key Topics Discussed by the Board of Directors and Meetings of Directors in 2022】

- Appointment of the Next President
- Medium-to-Long-Term Strategy
- Sustainability Management Strategy
- Strategies for Future Business in Japan
- Strategies for Future Business in China
- Transfer of the Manufacturing Business of Personal Care Products

・ Transfer of Professional Business
・ Corporate Governance
・ Major Risks Faced by the Shiseido Group
・ Information Security Initiatives
・ Reports on Investor Relations (e.g., Investor Feedback)

【Evaluation of the Effectiveness of the Board of Directors】

■Basic policy

The Company evaluates the effectiveness of the Board of Directors with the purpose of identifying issues and points to be improved of the Board of Directors, etc. and evolving the Board of Directors into a more effective one.

The Company conducts annual questionnaire surveys and interviews with all directors and Audit & Supervisory Board members to evaluate and analyze the Board of Directors, and the Nomination & Remuneration Advisory Committee. The secretariat of the Board of Directors summarizes, analyses, and identifies issues.

The identified issues and opinions are reported to the Board of Directors, and necessary measures are taken.

In addition, third-party organizations regularly check and evaluate the effectiveness of these assessments to ensure transparency and objectivity.

■Implementation of the Fiscal 2022 Evaluation

We conducted the "Fiscal 2022 Effectiveness Evaluation of the Board of Directors" for the evaluation period between the previous year's general meeting of shareholders and this year's general meeting of shareholders.

The survey focused on the composition aspects such as the diversity of members of the Board of Directors, as well as deliberations and discussion aspects including agenda setting and content of materials and its explanation, operational aspects such as prior distribution of materials and the provision of prior briefings on the agenda, communication aspects such as demonstrating capabilities expected as roles of board members and strengthening of cooperation with Audit & Supervisory Board members and executive officers, and how our governance should be.

As a result, although we recognized the effectiveness of the Board of Directors has been ensured, there were opinions and recommendations for further improvement of the effectiveness.

Specifically, lively discussions with enriched diversity of the members of the Board of Directors and prior distribution of materials and briefings at appropriate timing were highly appreciated. On the other hand, we recognize the necessity for more strategic agenda setting to concentrate on discussions on important issues, status updates on the progress of strategy (medium-term strategy and plan), further improvement for prior briefings, materials, and additional information sharing to external directors.

In light of these results, we will continue to make efforts to strengthen the effectiveness of the Board of Directors by setting agenda strategically, preparing easy-to-understand materials which clarifies issues and points, and increasing opportunities for external directors to promote further understanding of the company. In particular, we focus on setting agenda items and enhancing discussions in order to fulfill the roles and responsibilities of the Board of Directors properly.

The measures we have taken so far and the opinions and future efforts to evaluate and improve these efforts in fiscal 2022 are as follows.

	Challenges by Fiscal 2021	Fiscal 2021 initiatives based on Challenges	Evaluations and Opinions for Fiscal 2022	Future Efforts
Agenda setting and discussion	· Active discussions on future strategies are necessary. · Discussion time should be focused on more necessary topics.	· Increased number of meetings focused on strategy (medium- to long-term strategy, regional strategy, sustainability strategy) and governance. · Depending on the agenda, discussions are held with the EO in charge and the regional CEO. · Use of written resolutions.	· Discussions on strategy formulation were solid. · Strategic agenda setting including regular reports on execution status of important matters is necessary.	· Setting agenda strategically throughout the year. · Progress updates on strategies regularly.
Prior Distribution and Content of Board Materials	· There is room for improvement in the comprehensibility and timely provision of materials.	· Continuing to ensure prior distribution of materials and creation of easy-to-understand materials. · Providing prior briefings for the Board of Directors.	· It was a big step forward that prior distribution of materials was ensured and prior briefings were provided. There is room for improvement in the method of prior briefings. · Further clarification of points and arrangement of the issues in the materials are desired.	· Improvement on providing prior briefings . · Further improvement on creating easy-to-understand materials (clarifying on issues and points).
Promoting the understanding of our external officers	· It is desirable to enhance the provision of information to external directors, such as exchanging opinions with Audit & Supervisory Board members, the internal audit department, and the executive side.	· Holding external directors meetings. · Increasing opportunities to visit and exchange opinions on-site at group companies, factories, laboratories, etc. · Implementation of onboarding program for newly appointed external directors.	· Discussions were stimulated by issues raised from various angles by external directors. · Improved cooperation and communication between Audit & Supervisory Board members and directors. · It is desirable to set up more opportunities for direct communication with the execution (on-site) side.	· Further enhancement of external officers meetings, and strengthening cooperation between external directors and external auditors through exchanging of opinions. · Continued onboarding program for newly appointed external directors. · Further efforts to deliver voices and opinions from employees working on-site to external directors.

The Nomination & Remuneration Advisory Committee

The Nomination & Remuneration Advisory Committee makes reports to the Board of Directors on matters including the selection of candidates for directors, Audit & Supervisory Board members, and executive officers, promotion and demotion of directors and executive officers, and the remuneration policy for directors and executive officers as well as the details of remuneration payment based on the evaluation of their performance.
5 external directors (one of whom is chairman) and the CEO are members.

In fiscal 2022, 10 meetings were held. The committee discussed bonuses for directors and corporate officers for fiscal 2021, as well as the remuneration policy for directors and corporate officers, and remuneration for said individuals for fiscal 2022, and discussed and reported the selection of candidates for directors and Audit & Supervisory Board members, appointments of executive officers, etc.

CEO Review Meeting

In our corporate governance, there is a need to appropriately concentrate authority in the CEO while maintaining a strong supervisory function to counterbalance that authority.
Accordingly, the Company has established the CEO Review Meeting as a special deliberation body for the Nomination & Remuneration Advisory Committee to comprehensively oversees CEO by discussing and considering matters relating to the CEO, including performance evaluation that includes a personal evaluation of the CEO, and confirms the appropriateness of the CEO's remuneration. To emphasize its independence from the CEO and the CEO's business execution framework, the CEO Review Meeting consists solely of external directors and external Audit & Supervisory Board members.
The committee met once in fiscal 2022.

Audit & Supervisory Board

Our Audit & Supervisory Board consists of five members, two full-time Audit & Supervisory Board members and three external Audit & Supervisory Board members.

The Audit & Supervisory Board receives reports on important matters related to audits, holds discussions, and makes resolutions pursuant to the provisions of laws and regulations, the Articles of Incorporation, and the Rules of the Audit & Supervisory Board.
In fiscal 2022, the Audit & Supervisory Board meetings were held 13 times, and the attendance rate of Audit & Supervisory Board members was 100%.

Basic Concept for Corporate Governance

Reasons for Adopting the Current Framework

The Company has adopted the framework of a company with an audit & supervisory board system, which exercises dual checking functions whereby business execution is supervised by the Board of Directors and audited for legality and appropriateness by the Audit & Supervisory Board. In order to maintain and improve management transparency, fairness, and speed as per the basic policy on corporate governance, the Company has reinforced the supervisory function of its Board of Directors by incorporating outstanding features of a company with a nominating committee, etc. and a company with an audit and supervisory committee.
Based on the Shiseido Group's matrix-type organizational system with brand categories and six regions combined, the Company as the global headquarters is responsible for supervising the overall Group and providing necessary support, while many of the responsibilities and authorities are delegated to the respective regional headquarters of Japan, China, Asia Pacific, the Americas, EMEA, and Travel Retail. We held repeated discussions with regard to an ideal corporate governance system under this matrix organization, including the composition and operation of the Board of Directors. As a result, the Board of Directors concluded that adopting the monitoring board-type system would be appropriate to ensure sufficient and effective supervisory functions over the Shiseido Group overall. Therefore, we resolved on the monitoring board-type corporate governance framework while leveraging the advantages of a company with an audit & supervisory board system.

Diversity of Directors and Audit & Supervisory Board Members

The Company believes that its Board of Directors should be composed of directors with various viewpoints and backgrounds in addition to diverse and sophisticated skills, required for effective supervision over the execution of business as well as decision-making on critical matters. Furthermore, the Company believes that its Audit & Supervisory Board members should have the same degree of diversity and expertise as directors, as they have a duty to attend meetings of the Board of Directors and state opinions as necessary.
When selecting candidates, we place importance on ensuring diversity, taking into account not only gender equality, but also other attributes such as age, nationality, personality, and insights and experiences in various fields related to management. In addition, the Company has set a certain maximum term of office for external directors and external Audit & Supervisory Board members in order to reflect their independent views to the management of the Company, and allows a handover period from long-serving external directors and Audit & Supervisory Board members to newly appointed ones to ensure appropriate transition.

Management Supervision System

Ratio of External Directors

The Company's Articles of Incorporation set the maximum number of directors at 12. The optimum number of directors for appropriate management supervision is determined based on this upper limit and such factors as the Company's business portfolio and scale.
For external directors, the number is set at three or above to allow such members a certain degree of influence within the Board. In addition, the Company has established a target of electing half or more of its directors from outside.
In selecting external directors and Audit & Supervisory Board members, high priority is given to independence. Our basic principle is that candidates are required to meet the Company's "Criteria for Independence of External Directors and Audit & Supervisory Board Members" as well as possess highly independent thinking.

Succession Plan for CEO

The Company considers that the selection of succession candidates for the CEO and the development of the succession plan requires the cooperation of the incumbent and the Nomination & Remuneration Advisory Committee. The CEO and the Nomination & Remuneration Advisory Committee formulate the succession plan based on the Company's business environment upon sufficient discussions regarding the qualities required of a CEO from a medium-to-long-term perspective and policies for the selection of a successor and his or her training, etc. The progress of the formulated succession plan is regularly reported to the Nomination & Remuneration Advisory Committee, which monitors its status of implementation.
Regarding selection of specific candidates for the CEO, the Nomination & Remuneration Advisory Committee receives full reports from the CEO on the specific nomination for successor from various perspectives. The Nomination and Remuneration Advisory Committee members themselves meet and exchange opinions with candidates, evaluating them from an independent perspective as well as the Company's management issues. Since the Nomination & Remuneration Advisory Committee performs certain important functions of the Board of Directors, the Board respects the committee's judgement. Furthermore, when actually selecting the CEO's successor, the Nomination & Remuneration Advisory Committee deliberates fully on matters such as the final candidate and their selection process, prior to reporting its opinion. The Board of Directors accords this report the utmost respect in passing a resolution regarding the selection.

Succession plan for the current CEO

In response to the 5-year extension of the incumbent CEO's term of office decided in 2019, the Company developed the framework of a succession plan and launched it after obtaining approval at the Board of Directors meeting so that the successor can smoothly take over CEO's responsibilities without any problem. In this 5-year succession plan, after selecting the successor over the first three years, the successor works as the COO in cooperation with the CEO for the remaining two years. The Company aims to realize a smooth CEO succession and strengthen its management structure by making the successor have ample time to take on the responsibility to lead the Company in cooperation with the incumbent CEO.

The CEO and the members of the Nomination & Remuneration Advisory Committee had fully discussed the necessary qualifications and requirements for CEO, the focal point of successor selection, training policy, etc., from a medium-to-long-term perspective, and taking into account the Company's business environment, and then examined/implemented training programs for the carefully screened candidates so that they can fully demonstrate their ability. The members of the Nomination & Remuneration Advisory Committee had taken much time to hold in-depth discussions while collecting information from the incumbent CEO, referring to the results of the assessments conducted by external experts, and conducting personal interviews with candidates so that they can nominate the best successor among all candidates selected from inside/outside the Company. Additionally, they had regularly exchanged opinions with external Audit & Supervisory Board members. All things considered, the successor of the CEO was finally approved at the Board of Directors meeting.

Toward the launch of the new management structure in January 2023, the successor of the CEO was selected in accordance with the framework of the succession plan and through the objective and transparent process mainly led by external directors and Audit & Supervisory Board members. The external directors and Audit & Supervisory Board members continue to monitor the new management structure so that the COO can , through the joint management of the CEO and COO, smoothly assume the post of CEO.

Succession and Training for Directors, Audit & Supervisory Board Members, and Executive Officers

The Company believes that it is important to have succession plans not only for the CEO but also for external directors and external Audit & Supervisory Board members, who play key roles in supervising business management. Matters regarding the succession plans, such as the term of office, clear criteria for successor candidates, and further strengthening of diversity, are subject to the review by the Nomination & Remuneration Advisory Committee.
The Company also believes that in addition to appointing personnel having credentials required to serve as directors, Audit & Supervisory Board members, or executive officers, it is important to provide them with necessary training and information. Therefore, the Company provides candidates for new directors and new Audit & Supervisory Board members with training regarding legal and statutory authorities and obligations, etc. In addition, when a new external director or external Audit & Supervisory Board member is scheduled to come on board, the Company provides training regarding the industry it operates in, its history, business overview, strategy, etc.
Furthermore, to cultivate the next generation of management, executive officer candidates are provided with training programs to nurture their leadership abilities and management expertise required for top management.

Principles of the Corporate Governance Code (CG Code) and Shiseido's Response

Last Update : June 8, 2023

Section 1

Securing the Rights and Equal Treatment of Shareholders	
General Principle 1	Companies should take appropriate measures to fully secure shareholder rights and develop an environment in which shareholders can exercise their rights appropriately and effectively. In addition, companies should secure effective equal treatment of shareholders. Given their particular sensitivities, adequate consideration should be given to the issues and concerns of minority shareholders and foreign shareholders for the effective exercise of shareholder rights and effective equal treatment of shareholders.

・See below

Principle 1.1	Companies should take appropriate measures to fully secure shareholder rights, including voting rights at the general shareholder meeting.

・See below

Supplementary Principle 1.1.1	When the board recognizes that a considerable number of votes have been cast against a proposal by the company and the proposal was approved, it should analyze the reasons behind opposing votes and why many shareholders opposed, and should consider the need for shareholder dialogue and other measures.

・For proposals with an approval rate below a certain level established by the Company, we engage in a dialogue with the opposing shareholder(s), whereupon we consider our response going forward.

Supplementary Principle 1.1.2	When proposing to shareholders that certain powers of the general shareholder meeting be delegated to the board, companies should consider whether the board is adequately constituted to fulfill its corporate governance roles and responsibilities. If a company determines that the board is indeed adequately constituted, then it should recognize that such delegation may be desirable from the perspectives of agile decision-making and expertise in business judgment.

・When delegating certain resolutions of the general shareholder meeting to the Board of Directors of the Company, the Board carefully considers whether it will not limit shareholder rights and ensures transparency to shareholders before the delegation. We pay particular attention that such delegation does not prevent the Company from fulfilling its responsibilities to the shareholders. For instance, the Company delegates resolutions on the acquisition of treasury stock and interim dividends to the Board in order to flexibly and proactively realize shareholder returns.

・Dividends of retained earnings are determined yearly through a proposal to the general shareholder meeting and its approval.

Supplementary Principle 1.1.3	Given the importance of shareholder rights, companies should ensure that the exercise of shareholder rights is not impeded. In particular, adequate consideration should be given to the special rights that are recognized for minority shareholders with respect to companies and their officers, including the right to seek an injunction against illegal activities or the right to file a shareholder lawsuit, since the exercise of these rights tend to be prone to issues and concerns.

・The Company sets up a system for appropriate response to requests or proposals from or exercise of rights for minority shareholders, such as posting a "Form for Exercise of Minority Shareholder Rights, Etc." (Japanese only) on its website.

Principle 1.2	Companies should recognize that general shareholder meetings are an opportunity for constructive dialogue with shareholders, and should therefore take appropriate measures to ensure the exercise of shareholder rights at such meetings.

・See below

Supplementary Principle 1.2.1	Companies should provide accurate information to shareholders as necessary in order to facilitate appropriate decision-making at general shareholder meetings.

・The Company publishes not only statutory disclosure items, but also other items deemed necessary by the Company, including those exemplified by other global companies or those requested at investor meetings. Such items are included in our notice of convocation or published on our corporate website.

Supplementary Principle 1.2.2	While ensuring the accuracy of content, companies should strive to send convening notices for general shareholder meetings early enough to give shareholders sufficient time to consider the agenda. During the period between the board approval of convening the general shareholder meeting and sending the convening notice, information included in the convening notice should be disclosed by electronic means such as through TDnet or on the company's website.

・The Company sends its notices of convocation approximately three weeks before the date of its annual general shareholder meeting. In addition, considering the time lag between the Board's approval of convening the meeting and sending the notice, we first disclose the information included in the notice on the day following the Board's meeting by electronic means such TDnet and our corporate website.

Supplementary Principle 1.2.3	The determination of the date of the general shareholder meeting and any associated dates should be made in consideration of facilitating sufficient constructive dialogue with shareholders and ensuring the accuracy of information necessary for such dialogue.

・Shiseido's fiscal year ends in December, and the general shareholder meeting is convened in March. To avoid scheduling conflicts with other companies that hold meetings in March, Shiseido convenes its meeting earlier than the most popular shareholder meeting date.

Supplementary Principle 1.2.4	Bearing in mind the number of institutional and foreign shareholders, companies should take steps for the creation of an infrastructure allowing electronic voting, including the use of the Electronic Voting Platform, and the provision of English translations of the convening notices of general shareholder meeting. In particular, companies listed on the Prime Market should make the Electronic Voting Platform available, at least to institutional investors.

・Recently, Japanese institutional investors and foreign institutional investors account for approximately 40% each of Shiseido's total shareholders.

・In consideration of the above, the Company uses the Electronic Voting Platform and provides English translations of various disclosed documents, such as notices of convocation or materials for financial results announcements, in addition to their Japanese originals.

Supplementary Principle 1.2.5	In order to prepare for cases where institutional investors who hold shares in street name express an interest in advance of the general shareholder meeting in attending the general shareholder meeting or exercising voting rights, companies should work with the trust bank (*shintaku ginko*) and/or custodial institutions to consider such possibility.

・In case the so-called actual shareholders request attendance at the general shareholder meeting, the Company confirms the fact of shareholding and prepares for their direct exercise of voting rights.

Principle 1.3	Because capital policy may have a significant effect on shareholder returns, companies should explain their basic strategy with respect to their capital policy.

・Shiseido has established the "Fundamental Approach to Capital Policy" and discloses it in the notice of convocation and other relevant documents:

Principle 1.4	When companies hold shares of other listed companies as cross-shareholdings, they should disclose their policy with respect to doing so, including their policies regarding the reduction of cross-shareholdings. In addition, the board should annually assess whether or not to hold each individual cross-shareholding, specifically examining whether the purpose is appropriate and whether the benefits and risks from each holding cover the company's cost of capital. The results of this assessment should be disclosed. Companies should establish and disclose specific standards with respect to the voting rights as to their cross-shareholdings, and vote in accordance with the standards.

・See below

Supplementary Principle 1.4.1	When cross-shareholders (i.e., shareholders who hold a company's shares for the purpose of cross-shareholding) indicate their intention to sell their shares, companies should not hinder the sale of the cross-held shares by, for instance, implying a possible reduction of business transactions.

・Shiseido has established "The Company's Policy with Regard to Reduction of Strategic Shareholdings" and discloses it in the notice of convocation and other relevant documents.

・The Policy stipulates that "if the Company receives a request for sale from a company that holds the Company's shares as strategic shareholdings, the Company should neither prevent the sale nor imply that it would reduce transactions with the holding company."

Supplementary Principle 1.4.2	Companies should not engage in transactions with cross-shareholders which may harm the interests of the companies or the common interests of their shareholders by, for instance, continuing the transactions without carefully examining the underlying economic rationale.

・Shiseido has established "The Company's Policy with Regard to Reduction of Strategic Shareholdings" and discloses it in the notice of convocation and other relevant documents.

・The Policy stipulates that "the Company periodically checks its individual shareholdings to see whether or not such shares are being held for the intended purpose and whether or not benefits associated with their ownership are commensurate with the associated cost of capital. The Board of Directors then verifies the appropriateness of maintaining ownership of such holdings and discloses circumstances attributable to any reduction of holdings." The said actions are performed annually.

Principle 1.5	Anti-takeover measures must not have any objective associated with entrenchment of the management or the board. With respect to the adoption or implementation of anti-takeover measures, the board and *kansayaku* should carefully examine their necessity and rationale in light of their fiduciary responsibility to shareholders, ensure appropriate procedures, and provide sufficient explanation to shareholders.

・See below

Supplementary Principle 1.5.1	In case of a tender offer, companies should clearly explain the position of the board, including any counteroffers, and should not take measures that would frustrate shareholder rights to sell their shares in response to the tender offer.

・In 2006, Shiseido introduced anti-takeover measures upon resolution by the general shareholder meeting, partly because the system and market regulations related to takeovers at the time were insufficient. Subsequently, after the expiration of the valid period at the conclusion of the 2008 Ordinary General Meeting of Shareholders, the Company judged that "rather than continuing the anti-takeover measures, a steady implementation of our three-year plan will enhance our competitiveness and sustainable growth potential in the global market, securing and improving our corporate value and, in turn, the common interests of shareholders." Consequently, the Company decided to discontinue the anti-takeover measures.

・In case of a tender offer, we will examine the content of the proposal, explain the position of our Board in accordance with the current Financial Instruments and Exchange Act, and respond appropriately.

Principle 1.6	With respect to a company's capital policy that results in the change of control or in significant dilution, including share offerings and management buyouts, the board and *kansayaku* should, in order not to unfairly harm the existing shareholders' interests, carefully examine the necessity and rationale from the perspective of their fiduciary responsibility to shareholders, should ensure appropriate procedures, and provide sufficient explanation to shareholders.

・Shiseido has established the "Fundamental Approach to Capital Policy" and discloses it in the notice of convocation and other relevant documents. It establishes target financial indices in accordance with which the Company executes its business.

Principle 1.7	When a company engages in transactions with its directors or major shareholders (i.e., related party transactions), in order to ensure that such transactions do not harm the interests of the company or the common interests of its shareholders and prevent any concerns with respect to such harm, the board should establish appropriate procedures beforehand in proportion to the importance and characteristics of the transaction. In addition to their use by the board in approving and monitoring such transactions, these procedures should be disclosed.

・The Company investigates and specifies related parties that carry the possibility of having an impact on the Company's financial position and operating results, confirms the existence of transactions with the said related parties and the materiality of the said transactions, and, if there are transactions to be disclosed, carries out disclosure accordingly.

・The existence of related parties, the existence of transactions with related parties, the contents of transactions and other such information, are reported to the Board of Directors in advance of disclosure, and a review is conducted by the Board of Directors from the perspective of quantitative materiality and qualitative materiality, such as the terms and reasonability of the transaction. A criteria are determined for quantitative materiality.

Section 2

Appropriate Cooperation with Stakeholders Other Than Shareholders	
General Principle 2	Companies should fully recognize that their sustainable growth and the creation of mid-to long-term corporate value are brought about as a result of the provision of resources and contributions made by a range of stakeholders, including employees, customers, business partners, creditors and local communities. As such, companies should endeavor to appropriately cooperate with these stakeholders. The board and the management should exercise their leadership in establishing a corporate culture where the rights and positions of stakeholders are respected and sound business ethics are ensured.

・See below

Principle 2.1	Guided by their position concerning social responsibility, companies should undertake their businesses in order to create value for all stakeholders while increasing corporate value over the mid- to long-term. To this end, companies should draft and maintain business principles that will become the basis for such activities.

・In our quest to become the most trusted beauty company in the world and remain vital for the next 100 years and beyond, THE SHISEIDO PHILOSOPHY is our guiding light. For each and every member of the global Shiseido family, THE SHISEIDO PHILOSOPHY is at the heart of everything we do as we strive to be a global winner with our heritage.

・Shiseido's value creation process is presented in our Integrated Report:

Principle 2.2	Companies should draft and implement a code of conduct for employees in order to express their values with respect to appropriate cooperation with and serving the interests of stakeholders and carrying out sound and ethical business activities. The board should be responsible for drafting and revising the code of conduct, and should ensure its compliance broadly across the organization, including the front line of domestic and global operations.

・The Company has defined THE SHISEIDO PHILOSOPHY, shared across the Group and built upon three elements: OUR MISSION, which determines our purpose, OUR DNA, which embodies our unique heritage of over 150 years, and OUR PRINCIPLES (TRUST 8), which is a mindset to be shared by each and every Shiseido Group employee in their work. We ensure consistency of our daily operations with THE SHISEIDO PHILOSOPHY by incorporating OUR PRINCIPLES into business performance indicators of our executives and managers.

・The Company also determines the Shiseido Code of Conduct and Ethics, which define the actions that must be taken and shared by each and every employee of the Shiseido Group.
It sets out not only abiding by the laws of each country and region, internal rules and regulations of the Shiseido Group, but also the action standards for business conduct with the highest ethical principles.

・The Company establishes a basic policy and rules in line with the Shiseido Code of Conduct and Ethics, with which the whole Shiseido Group is required to comply. Every Group company and business site shall be fully aware of this policy and rules, along with THE SHISEIDO PHILOSOPHY and the Shiseido Code of Conduct and Ethics, so that environments for the formulation of detailed internal regulations of the Company will be created at every Group company and business site.

・We regularly conduct the Shiseido Group Engagement Survey, where we review the status of compliance with the Shiseido Code of Conduct and Ethics and continuously implement activities for improvement.

Supplementary Principle 2.2.1	The board should review regularly (or where appropriate) whether or not the code of conduct is being widely implemented. The review should focus on the substantive assessment of whether the company's corporate culture truly embraces the intent and spirit of the code of conduct, and not solely on the form of implementation and compliance.

・A committee that oversees compliance and risk management has been set up in the Company, and while coordinating with organizations that have been set up to fulfill the compliance and risk management functions in the respective regional headquarters located in the major regions across the globe, this committee is responsible for corporate quality improvement by enhancing legitimate and fair corporate activities of the Group, and risk management. The committee regularly reports important matters and the status of their progress to the Board of Directors.

・The Company deploys a person in charge of promoting legitimate and fair corporate activities of the Group and risk management at each Group company and business site, plans and promotes regular training and educational activities on corporate ethics, and responds to incidents and manages risks. The department in charge of risk management shares information regularly with the persons in charge deployed within each Group company and business site.

Principle 2.3	Companies should take appropriate measures to address sustainability issues, including social and environmental matters.

・See below

Supplementary Principle 2.3.1	The board should recognize that dealing with sustainability issues, such as taking care of climate change and other global environmental issues, respect of human rights, fair and appropriate treatment of the workforce including caring for their health and working environment, fair and reasonable transactions with suppliers, and crisis management for natural disasters, are important management issues that can lead to earning opportunities as well

	as risk mitigation, and should further consider addressing these matters positively and proactively in terms of increasing corporate value over the mid-to long-term.

・We first examined the importance of these issues to Shiseido's business and to all our stakeholders, from employees and consumers to business partners, shareholders, and society and the Earth. We then categorized and prioritized the issues along two axes and defined 18 material issues. Shiseido has established three strategic actions in each of the environmental and social areas.

・Each issue related to sustainability such as climate change and human rights were reviewed through discussions by Executive Officers and Audit & Supervisory Board members at the Sustainability Committee, a dedicated body to ensure timely management decisions related to sustainability and their company-wide implementation, established in 2020. In addition, the Global Strategy Committee and the Board of Directors are consulted when a decision is needed on important matters related to business execution.

Principle 2.4	Companies should recognize that the existence of diverse perspectives and values reflecting a variety of experiences, skills and characteristics is a strength that supports their sustainable growth. As such, companies should promote diversity of personnel, including the active participation of women.

・See below

Supplementary Principle 2.4.1	Companies should present their policies and voluntary and measurable goals for ensuring diversity in the promotion to core human resources, such as the promotion of women, foreign nationals and midcareer hires to middle managerial positions, as well as disclosing their status. In addition, in light of the importance of human resource strategies for increasing corporate value over the mid-to long-term, companies should present its policies for human resource development and internal environment development to ensure diversity, as well as the status of their implementation.

・At Shiseido, we recognize and respect differences among individuals regardless of their attributes or ways of thinking. This includes not only women and foreign nationals, but also midcareer hires and persons with disabilities, as we create a company whose strength stems from individual strengths of its people and maximizing these strengths. To that end, we aim to ensure the diversity of our core human resources. We will continue to support the active participation of employees with diverse backgrounds and further accelerate diversity and inclusion at the workplace.

・Regarding women, the ratio of female leaders already exceeds 60% at our each regional offices overseas (China, Asia Pacific, the Americas, EMEA, and Travel Retail). By 2030, we aim to raise it to 50% in Japan as well.

・Regarding foreign nationals, we believe that new value creation is aided by bringing together human resources with diverse values, backgrounds, and experiences, as well as their promotion in friendly competition with each other. We are currently considering setting a target at a certain percentage of foreign nationals in Headquarter by hiring foreign nationals in Japan as well as promoting global mobility.

・For midcareer hires, we do not set any specific targets, but are mainly employing them for mid-career recruitment in the Shiseido Group in Japan .)

・Regarding recruitment of foreign nationals and midcareer hires as core human resources, the Company does not set specific targets, since we do not see any considerable differences from employees with other backgrounds.

・We disclose the following regarding the status of diversity in the "Social Data" section of the Shiseido Group corporate website. As of January 2022, approximately 2.3% of managers at Shiseido Group in Japan were foreign nationals, and approximately 29.6%—midcareer hires.

- Ratio of Female Leaders (All Shiseido Group / By region)
- Diversity in Top Management
- Ratio of Employees with Disabilities
- Ratio of Employees by Age Group (All Shiseido Group / By region)
- Ratio of female managers in revenue-generating functions / Female ratio in STEM-related departments
- Number and ratio of non-Japanese hires in Shiseido Group in Japan
- Ratio of mid-career hires to new hires at Shiseido Group companies in Japan

・We disclose our policies for human resource development and internal environment development to ensure diversity, as well as the status of their implementation, on the following website.

Principle 2.5	Companies should establish an appropriate framework for whistleblowing such that employees can report illegal or inappropriate behavior, disclosures, or any other serious concerns without fear of suffering from disadvantageous treatment. Also, the framework should allow for an objective assessment and appropriate response to the reported issues, and the board should be responsible for both establishing this framework, and ensuring and monitoring its enforcement.

・See below

Supplementary Principle 2.5.1	As a part of establishing a framework for whistleblowing, companies should establish a point of contact that is independent of the management (for example, a panel consisting of outside directors and outside *kansayaku*).

	In addition, rules should be established to secure the confidentiality of the information provider and prohibit any disadvantageous treatment.

・For the purpose of detection and remediation of types of conduct within the Group that are in violation of laws, the Articles of Incorporation, and internal regulations of the Shiseido Group, the Company sets up, as a contact for whistle-blowing, a hotline in each Group company as well as a hotline where employees can directly report to the officer in charge of risk management. In Japan, the Company has established one hotline as an in-house-counselor-staffed internal point of contact, and one outside-counselor-staffed external point of contact.

・The Company has established a method through which directors and employees, including those of all Group companies, can directly inform Audit & Supervisory Board members (including the external Audit & Supervisory Board members) of issues, and has made this method known throughout the Group.

・The Company and all Group companies have developed internal regulations to ensure that the said directors and employees are not dismissed, discharged from service or receive any other disadvantageous treatment due to reporting to hotlines or Audit & Supervisory Board members or informing them of issues, and have made these regulations known.

Principle 2.6	Because the management of corporate pension funds impacts stable asset formation for employees and companies' own financial standing, companies should take and disclose measures to improve human resources and operational practices, such as the recruitment or assignment of qualified persons, in order to increase the investment management expertise of corporate pension funds (including stewardship activities such as monitoring the asset managers of corporate pension funds), thus making sure that corporate pension funds perform their roles as asset owners. Companies should ensure that conflicts of interest which could arise between pension fund beneficiaries and companies are appropriately managed.

・We strive to optimize pension asset management by implementing the following initiatives enabling us to perform the functions expected of an asset owner.

●The Investment Committee Meeting composed of the CFO, the Human Resources Department VP, the Finance and Accounting Department VP, the Strategic Finance Department VP, and the Pension Fund Directors, meets regularly to decide on asset portfolio, investment policies, and investment products with opinions and advice from outside investment consulting firms.　In doing so, we properly manage conflicts of interest between the beneficiaries of the pension fund and the Company.

●Based on the policies determined by the Investment Committee Meeting, the Investment Managing Director executes asset management and reports the results to the Investment Committee Meeting, the Pension Fund Delegates Meeting and the Board of Pension Fund Directors to monitor investment performance.

●Regarding Executive Director and Investment Managing Director of the Pension Fund, we employ personnel with extensive experience in corporate pension operations at external financial institutions. Members of the Investment Committee Meeting acquire expertise by participating in seminars held by outside consulting firms and other specialized institutions.

・In addition, in order to fulfill its stewardship responsibilities appropriately as a responsible institutional investor, in March 2020, our Pension Fund announced their acceptance of the Principles of Responsible Institutional Investors (Japanese version of the Stewardship Code). As an asset owner, our Pension Fund strives to make stewardship activities more effective by encouraging the asset management companies we outsource to engage in dialogue with investee companies so that they can improve their corporate value and address sustainability issues.

Section 3

Ensuring Appropriate Information Disclosure and Transparency	
General Principle 3	Companies should appropriately make information disclosure in compliance with the relevant laws and regulations, but should also strive to actively provide information beyond that required by law. This includes both financial information, such as financial standing and operating results, and non-financial information, such as business strategies and business issues, risk and governance. The board should recognize that disclosed information will serve as the basis for constructive dialogue with shareholders, and therefore ensure that such information, particularly non-financial information, is accurate, clear and useful.

・See below

Principle 3.1	In addition to making information disclosure in compliance with relevant laws and regulations, companies should disclose and proactively provide the information listed below (along with the disclosures specified by the principles of the Code) in order to enhance transparency and fairness in decision-making and ensure effective corporate governance: i) Company objectives (e.g., business principles), business strategies and business plans; ii) Basic views and guidelines on corporate governance based on each of the principles of the Code; iii) Board policies and procedures in determining the remuneration of the senior management and directors; iv) Board policies and procedures in the appointment/dismissal of the senior management and the nomination of directors and *kansayaku* candidates; and v) Explanations with respect to the individual appointments/dismissals and nominations based on iv).

・See below

Supplementary Principle 3.1.1	These disclosures, including disclosures in compliance with relevant laws and regulations, should add value for investors, and the board should ensure that information is not boilerplate or lacking in detail.

・The Company discloses the following information in detail, upon careful analysis of the internal and external environment at the time of disclosure: business principles, strategies, and plans, basic views on corporate governance based on the Code, information regarding the remuneration of directors, and information regarding the appointment/dismissal of the senior management. The information is disclosed each time upon the publication of the notice of convocation and presentation materials for the annual ordinary general meeting of shareholders, quarterly financial results materials, annual integrated and sustainability reports, etc.

Supplementary Principle 3.1.2	Bearing in mind the number of foreign shareholders, companies should, to the extent reasonable, take steps for providing English language disclosures. In particular, companies listed on the Prime Market should disclose and provide necessary information in their disclosure documents in English.

・The Company provides the English translation for all of its disclosure materials: the notice of convocation and presentation materials for the annual ordinary general meeting of shareholders, video reports of the general meeting of shareholders, quarterly financial results materials (settlements of accounts), annual integrated and sustainability reports, etc. The contents of annual and quarterly securities reports, required for disclosure by the Financial Instruments and Exchange Law, are presented in the integrated report in a visual form.

Supplementary Principle 3.1.3	Companies should appropriately disclose their initiatives on sustainability when disclosing their management strategies. They should also provide information on investments in human capital and intellectual properties in an understandable and specific manner, while being conscious of the consistency with their own management strategies and issues. In particular, companies listed on the Prime Market should collect and analyze the necessary data on the impact of climate change-related risks and earning opportunities on their business activities and profits, and enhance the quality and quantity of disclosure based on the TCFD recommendations, which are an internationally well-established disclosure framework, or an equivalent framework.

・The Company summarizes and discloses its initiatives on sustainability in the sustainability report, published annually on its corporate website.

・Based on our commitment to "PEOPLE FIRST," Shiseido actively invests in human resource development, believing that human resources are the most important asset and that "strong individuals create a strong Company." To create strong individuals, we focus on strategic talent management, performance management, and autonomous career development support, founded on a job grade system. In 2020, Shiseido formulated the TRUST 8 Competencies, which describe a Company-wide image of human resources, with the aim of effectively implementing global human resource management. The TRUST 8 Competencies serve as the basis of our globally standardized selection/evaluation and human resource development programs, allowing each employee with ranging expertise to grow in work areas where they can maximize their respective strengths. Shiseido encourages employees' self-driven efforts to grow and provides support for individualized autonomous career development.

・Regarding investments in human capital, the Company has decided to establish "Shiseido Future University," a facility to develop leaders of the next generation in Ginza (Chuo-ku, Tokyo), the Company's place of foundation, as part of the initiatives to commemorate the 150th anniversary of founding. The facility is scheduled to open in the autumn of 2023. Masahiko Uotani, the CEO of the Company has always strongly believed that people are the greatest asset and that investment in people increases corporate value, so has upheld the management philosophy of "PEOPLE FIRST." We will further strengthen our investment in people capital through "Shiseido Future University." Specifically, we will work on people development through the original curriculum which combines the state-of-the-art, global level business school education with the learning from Shiseido's heritage which has pursued a sense of beauty and richness of spirit since its founding. We will nurture global leaders suitable to lead a global beauty company, who have acquired strategic thinking, leadership and sensitivity, and contribute to the realization of a better society through generating innovations and growing business. As an example of return on such investment, Shiseido's global EC sales ratio has been growing rapidly to 33% of total net sales in fiscal year 2022.

・Regarding investments in intellectual properties, Shiseido is working to realize its corporate mission of BEAUTY INNOVATIONS FOR A BETTER WORLD: in addition to its traditional strengths in dermatology, formulation development, neuroscience, and kansei science, the Company integrates new science technologies, such as digital and device development that cross geographic and industry boundaries, as well as creates unique Japanese innovations that help minimize environmental impacts.

・In fiscal 2022, our R&D expenditure came to 26.7 billion yen (or 2.5% of net sales). In addition to basic research that generates medium-to-long-term "seeds," the Company is increasing investment in R&D in new domains such as beauty devices and inner beauty.

・We recognize that intellectual property is an important corporate asset and strive for its strict protection and appropriate management. We aim to maximize its value by linking it to our strategies at various levels—corporate, business, and technology—and effectively utilizing it. In addition to proprietary use, the Company also promotes the use of its intellectual properties in a variety of ways, such as licensing or utilization aimed at resolving social issues.

・The Company has commenced disclosure based on the TCFD recommendations from 2020. Our initiatives are disclosed in the following report.

Principle	External auditors and companies should recognize the responsibility that external auditors owe toward shareholders

3.2	and investors, and take appropriate steps to secure the proper execution of audits.

・See below

Supplementary Principle 3.2.1	The *kansayaku* board should, at minimum, ensure the following: i) Establish standards for the appropriate selection of external auditor candidates and proper evaluation of external auditors; and ii) Verify whether external auditors possess necessary independence and expertise to fulfill their responsibilities.

・Regarding the appointment and dismissal of the accounting auditor by the Company, Director Chief Financial Officer and heads of departments relevant to financial accounting and audits conduct an evaluation, and then Audit & Supervisory Board members need to unanimously agree through deliberations based on the evaluation results at the Audit & Supervisory Board meeting.

・The Company's Policy on determination of dismissal or non-reappointment of the accounting auditor is as follows.

・In order to adopt the resolution for the reappointment of the accounting auditor, the Audit & Supervisory Board confirms items such as the adequacy of the accounting auditor, quality control, the independence and professional competency of the audit team, the appropriateness of audit plans and the status of communication with the Audit & Supervisory Board members and other personnel. In addition, prior to adopting the resolution for reappointment, the Audit & Supervisory Board has interviews with the heads of departments in charge of business execution (Financial Accounting Department and Internal Audit Department) about the accounting auditor and exchanges opinions with the Director Chief Financial Officer at the Audit & Supervisory Board.

Supplementary Principle 3.2.2	The board and the *kansayaku* board should, at minimum, ensure the following: i) Give adequate time to ensure high quality audits; ii) Ensure that external auditors have access, such as via interviews, to the senior management including the CEO and the CFO; iii) Ensure adequate coordination between external auditors and each of the *kansayaku* (including attendance at the *kansayaku* board meetings), the internal audit department and outside directors; and iv) Ensure that the company is constituted in the way that it can adequately respond to any misconduct, inadequacies or concerns identified by the external auditors.

・The representative directors and Audit & Supervisory Board members hold opinion exchange meetings as needed, and the external directors and Audit & Supervisory Board members also hold information sharing meetings as needed. In addition, the accounting auditor and Audit & Supervisory Board members hold opinion exchange meetings as needed. The accounting auditor and the full-time Audit & Supervisory Board members hold meetings on reporting accounting auditor's audit results on a quarterly basis. These quarterly meetings are also attended by the external directors and external Audit & Supervisory Board members twice a year, at the end of the first half and at the end of the fiscal year, to promote sharing of information.

・The full-time Audit and Supervisory board members receive reports monthly on the internal audits conducted by the Internal Audit Department, and receive audit result reports of each domain semi-annually from the Quality Management Department, the Information Security Department, the Risk Management Department, and the Audit Group of the Business Management Department of Shiseido Japan Co., Ltd.

・Three-party audit liaison meetings are held on a quarterly basis to enable the full-time Audit & Supervisory Board members, the accounting auditor, and the Internal Audit Department to share audit information. Furthermore, the full-time Audit & Supervisory Board members also attend important meetings related to business execution held by executive divisions, such as the Board of Directors and Global Strategy Committee meetings, to check on the content of deliberations.

Section 4

Responsibilities of the Board	
General Principle 4	Given its fiduciary responsibility and accountability to shareholders, in order to promote sustainable corporate growth and the increase of corporate value over the mid-to long-term and enhance earnings power and capital efficiency, the board should appropriately fulfill its roles and responsibilities, including: (1) Setting the broad direction of corporate strategy; (2) Establishing an environment where appropriate risk-taking by the senior management is supported; and (3) Carrying out effective oversight of directors and the management (including *shikkoyaku* and so-called *shikkoyakuin*) from an independent and objective standpoint. Such roles and responsibilities should be equally and appropriately fulfilled regardless of the form of corporate organization–i.e., Company with *Kansayaku* Board (where a part of these roles and responsibilities are performed by *kansayaku* and the *kansayaku* board), Company with Three Committees (Nomination, Audit and Remuneration) or Company with Supervisory Committee.

・See below

Principle 4.1	The board should view the establishment of corporate goals (business principles, etc.) and the setting of strategic direction as one major aspect of its roles and responsibilities. It should engage in constructive discussion with

	respect to specific business strategies and business plans, and ensure that major operational decisions are based on the company's strategic direction.

・In our quest to become the most trusted beauty company in the world and remain vital for the next 100 years and beyond, THE SHISEIDO PHILOSOPHY is our guiding light. For each and every member of the global Shiseido family, THE SHISEIDO PHILOSOPHY is at the heart of everything we do as we strive to be a global winner with our heritage.

・Based on THE SHISEIDO PHILOSOPHY and in response to unprecedented changes in external market conditions, Shiseido's Board of Directors have established "SHIFT 2025 and Beyond," a medium-term strategy centered on the three years from 2023 to 2025. With "SHIFT 2025 and Beyond," the Company will take the next three years under a new management structure to shift itself from "Defense" to "Offense" and ensure further growth to "Be a Global Winner with Our Heritage." As part of "SHIFT 2025 and Beyond," we aim to first regain the growth of the Japan business, which is the remaining challenge of "WIN 2023 and Beyond." We will achieve core operating profit exceeding ¥50 billion in the Japan business by 2025 through fundamental reforms over a three-year period from 2023. During the same period, the entire Company will implement reforms to improve sustainable sales growth and profitability, aspiring to become a Personal Skin Beauty & Wellness Company. As we aim for long-term growth, we are strengthening investment in the three priority areas of brand, innovation, and people, and plan to achieve our core operating margin of 12% by 2025 and 15% in the plan's final year of 2027. We will continue to aspire to realize a sustainable world where everyone can enjoy a lifetime of happiness through the power of beauty through our corporate mission, "BEAUTY INNOVATIONS FOR A BETTER WORLD."

Supplementary Principle 4.1.1	The board should clearly specify its own decisions as well as both the scope and content of the matters delegated to the management, and disclose a brief summary thereof.

・The Company has specified matters to be determined by resolution of the Board of Directors in the Regulation on the Board of Directors. Such matters consist of items relating to the general meeting of shareholders, personnel/organization, account settlement, stock/bonds, and stock acquisition rights, corporate property, etc., business management and others of the Shiseido Group, that are matters provided in the Companies Act and other laws and regulations, and any other important matters equivalent thereof.

・Meanwhile, in order to clarify the allocation of responsibility for the business management and accelerate decision-making by delegation of authority, the Company introduced the corporate officer system in 2001. As a result, authority for making decisions on matters relating to business executions other than those specified in the Regulation of the Board of Directors has been delegated to the extent appropriate so that CEO, who is the top executive of the Company, can make decisions after deliberations at important meeting bodies for decision-making on business execution such as the Global Strategy Committee and others.

・After extensive discussions at the Board of Directors were held with regard to the corporate governance of the Company during fiscal 2015 and also assessment of the effectiveness of the Board of Directors was performed, and in light of the decision that the Company will adopt the "monitoring board-type corporate governance," the Company made revisions of matters that needed to be deliberated and decided at the meetings of the Board of Directors.

・In January 2021, the Company introduced the executive officer system, in which the officers take responsibility for the Group-wide business execution with the aim of accelerating the structural transformation and reform across the Company and further improving profitability. Furthermore, aiming to enhance diversity in management, the Company has decided to abolish the corporate officer system and completely shift to a management system centering on executive officers effective from January 2022. The system will allow us to appoint a diverse range of talent both internally and externally across the globe beyond the boundaries of gender, nationality, age, and other attributes, assigning positions more appropriately than ever before.

Supplementary Principle 4.1.2	Recognizing that a mid-term business plan (*chuuki keiei keikaku*) is a commitment to shareholders, the board and the senior management should do their best to achieve the plan. Should the company fail to deliver on its mid-term business plan, the reasons underlying the failure of achievement as well as the company's actions should be fully analyzed, an appropriate explanation should be given to shareholders, and analytic findings should be reflected in a plan for the ensuing years.

・Shiseido launched WIN 2023, our previous medium-term strategy to achieve our vision for 2030: becoming the world's No.1 company in skin beauty. During the three-year period from 2021 to 2023, we are implementing radical transformations focused on profitability and cash flow rather than growth via sales expansion in a bid to solidify our foundation as a skin beauty company. We designated 2021 as a period of "Groundwork" to focus on structural reforms centered on reviewing our business portfolio and strengthening our financial base while responding to and preparing for current and post-COVID-19 markets. We positioned 2022, which marked the 150th anniversary of Shiseido's founding, as the "Back on Growth Track" year to accelerate further growth of our global brands and DX initiatives. The final year of the WIN 2023 strategy is a year of "Full Recovery." We aim to achieve net sales of approximately ¥1 trillion and an operating profit margin (OPM) of 15% as a Skin Beauty Company. Furthermore, we are continuing to strengthen our active investment in our brands, innovation, supply network, DX, and people over these three years. The strategy and its progress are reviewed at our corporate website:

Supplementary Principle 4.1.3	Based on the company objectives (business principles, etc.) and specific business strategies, the board should proactively engage in the establishment and implementation of a succession plan for the CEO and other top executives and appropriately oversee the systematic development of succession candidates, deploying sufficient time and resources.

・The Company considers that the selection of succession candidates for the CEO and the development of the succession plan requires the cooperation of the incumbent and the Nomination & Remuneration Advisory Committee. The CEO and the Nomination & Remuneration Advisory

Committee formulate the succession plan based on the Company's business environment upon sufficient discussions regarding the qualities required of the CEO from a medium-to-long-term perspective and policies for the selection of a successor and his or her training, etc. The progress of the formulated succession plan is regularly reported to the Nomination & Remuneration Advisory Committee, which monitors its status of implementation. Regarding selection of specific candidates for the CEO, the Nomination & Remuneration Advisory Committee receives full reports from the CEO on the specific nomination for successor from various perspectives. The Nomination and Remuneration Advisory Committee members themselves meet and exchange opinions with candidates, evaluating them from an independent perspective as well as the Company's management issues. Since the Nomination & Remuneration Advisory Committee performs certain important functions of the Board of Directors, the Board respects the committee's judgement. Furthermore, when actually selecting the CEO's successor, the Nomination & Remuneration Advisory Committee deliberates fully on matters such as the final candidate and their selection process, prior to reporting its opinion. The Board of Directors accords this report the utmost respect in passing a resolution regarding the selection.

・In response to the 5-year extension of the incumbent CEO's term of office decided in 2019, the Company developed the framework of a succession plan and launched it after obtaining approval at the Board of Directors meeting so that the successor can smoothly take over CEO's responsibilities without any problem. In this 5-year succession plan, after selecting the successor over the first three years, the successor works as the COO in cooperation with the CEO for the remaining two years. The Company aims to realize a smooth CEO succession and strengthen its management structure by making the successor have ample time to take on the responsibility to lead the Company in cooperation with the incumbent CEO. The CEO and the members of the Nomination & Remuneration Advisory Committee had fully discussed the necessary qualifications and requirements for CEO, the focal point of successor selection, training policy, etc., from a medium-to-long-term perspective, and taking into account the Company's business environment, and then examined/implemented training programs for the carefully screened candidates so that they can fully demonstrate their ability. The members of the Nomination & Remuneration Advisory Committee had taken much time to hold in-depth discussions while collecting information from the incumbent CEO, referring to the results of the assessments conducted by external experts, and conducting personal interviews with candidates so that they can nominate the best successor among all candidates selected from inside/outside the Company. Additionally, they had regularly exchanged opinions with external Audit & Supervisory Board members. All things considered, the successor of the CEO was finally approved at the Board of Directors meeting. Toward the launch of the new management structure in January 2023, the successor of the CEO was selected in accordance with the framework of the succession plan and through the objective and transparent process mainly led by external directors and Audit & Supervisory Board members. The external directors and Audit & Supervisory Board members continue to monitor the new management structure so that the COO can, through the joint management of the CEO and COO, smoothly assume the post of CEO.

Principle 4.2	The board should view the establishment of an environment that supports appropriate risk-taking by the senior management as a major aspect of its roles and responsibilities. It should welcome proposals from the management based on healthy entrepreneurship, fully examine such proposals from an independent and objective standpoint with the aim of securing accountability, and support timely and decisive decision-making by the senior management when approved plans are implemented. Also, the remuneration of the management should include incentives such that it reflects mid-to long-term business results and potential risks, as well as promotes healthy entrepreneurship.

・See below

Supplementary Principle 4.2.1	The board should design management remuneration systems such that they operate as a healthy incentive to generate sustainable growth, and determine actual remuneration amounts appropriately through objective and transparent procedures. The proportion of management remuneration linked to mid-to long-term results and the balance of cash and stock should be set appropriately.

・The Company regards the remuneration policy for directors, Audit & Supervisory Board members, and executive officers as an important matter for corporate governance. For this reason, in accordance with the basic philosophy, the remuneration policy of the Company is deliberated in the Nomination & Remuneration Advisory Committee chaired by an external director for objectivity, and the outcome is reported to the Board of Directors for the resolution.

・The remuneration of the directors and executive officers of the Company comprises basic remuneration as fixed remuneration as well as an annual bonus and long-term incentive-type remuneration (stock compensation) as performance-linked remuneration, and the Company sets remuneration levels by making comparisons with companies in the same industry or of the same scale in Japan and overseas and by taking the Company's financial condition into consideration.

・The "long-term incentive-type remuneration" is designed for the purpose of creating corporate value from both aspects of economic and social values, as well as establishing a sense of common interests with shareholders. As performance indicators to evaluate the enhancement of economic value, a mix of quantitative targets to be aimed for with a long-term perspective has been set under the medium- to long-term strategy. In addition, as benchmarks on creation of social value, the Company has set multiple internal and external indicators pertaining to the environment, society, and governance (ESG).

・External directors and Audit & Supervisory Board members receive only basic remuneration, as fluctuating remuneration such as performance-linked remuneration is inconsistent with their supervisory functions from a stance independent from business execution. Furthermore, the Company does not have an officers' retirement benefit plan.

・The remuneration is designed so that the higher the rank as executive officer, the higher the proportion of performance-linked remuneration.

・The Company has formed a board members' company stock ownership association, and encourages them to join. This program has been provided with the aim of establishing a sense of common interests with the shareholders, as the directors and Audit & Supervisory Board members purchase the Company's shares on a regular basis and hold them as shareholders.

Supplementary Principle 4.2.2	The board should develop a basic policy for the company's sustainability initiatives from the perspective of increasing corporate value over the mid-to long-term. In addition, in light of the importance of investments in human capital and intellectual properties, the board should effectively supervise the allocation of management resources, including such investments, and the implementation of business portfolio strategies to ensure that they contribute to the sustainable growth of the company.

・The Company has developed a basic policy on sustainability, formulated based on discussions of its Board of Directors, and discloses it in our WEB site and the Sustainability Report

・The Company develops medium-to-long-term strategies in periods of three years based on discussions by its Board of Directors. This includes business portfolio revision, allocation of management resources, and development of sales strategies based on the analysis of recent global market trends and consumer purchasing behavior, etc. The Board also oversees the implementation progress of these strategies.

・These strategies undergo appropriate revisions depending on the status of monthly sales and other indicators as well as quarterly financial results. The content of the revisions is overseen by the Board of Directors of the Company.

Principle 4.3	The board should view the effective oversight of the management and directors from an independent and objective standpoint as a major aspect of its roles and responsibilities. It should appropriately evaluate company performance and reflect the evaluation in its assessment of the senior management. In addition, the board should engage in oversight activities in order to ensure timely and accurate information disclosure, and should establish appropriate internal control and risk management systems. Also, the board should appropriately deal with any conflict of interests that may arise between the company and its related parties, including the management and controlling shareholders.

・See below

Supplementary Principle 4.3.1	The board should ensure that the appointment and dismissal of the senior management are based on highly transparent and fair procedures via an appropriate evaluation of the company's business results.

・The nomination of candidates for directors and the appointment of executive officers are decided by the resolution of the Board of Directors upon receipt of a report on the validity of the candidates from the Nomination and Remuneration Advisory Committee, chaired by an external director.

・In case of the nomination of the CEO, the Nomination and Remuneration Advisory Committee conducts more careful deliberations in addition to the above procedures. Candidates for the CEO are selected from a wide range of possible nominees, both inside and outside the Company, with the perspective of their ability to realize our corporate philosophy and strategy. From this selection stage, they are deliberated by the Nomination and Remuneration Advisory Committee, chaired by an external director. In the event that a qualified person is appointed through the above process but unavoidable circumstances arise in which he or she is unable to fulfill his or her duties and responsibilities, the said CEO will be dismissed by a resolution of the Board of Directors after careful consideration by the Nomination and Remuneration Advisory Committee. Whether the CEO is fulfilling his or her duties and responsibilities is confirmed at the CEO Review Meeting and reviewed and confirmed at a meeting of the Nomination and Remuneration Advisory Committee convened based on the review.

Supplementary Principle 4.3.2	Because the appointment/dismissal of the CEO is the most important strategic decision for a company, the board should appoint a qualified CEO through objective, timely, and transparent procedures, deploying sufficient time and resources.

・The Company considers that the selection of succession candidates for the CEO and the development of the succession plan requires the cooperation of the incumbent and the Nomination & Remuneration Advisory Committee.
The CEO and the Nomination & Remuneration Advisory Committee formulate the succession plan based on the Company's business environment upon sufficient discussions regarding the qualities required of a CEO from a medium-to-long-term perspective and policies for the selection of a successor and his or her training, etc. The progress of the formulated succession plan is regularly reported to the Nomination & Remuneration Advisory Committee, which monitors its status of implementation.
Regarding selection of specific candidates for the CEO, the Nomination & Remuneration Advisory Committee receives full reports from the CEO on the specific nomination for successor from various perspectives. The Nomination and Remuneration Advisory Committee members themselves meet and exchange opinions with candidates, evaluating the candidates from an independent perspective as well as the Company's management issues. Since the Nomination & Remuneration Advisory Committee performs certain important functions of the Board of Directors, the Board respects the committee's judgement. Furthermore, when actually selecting the CEO's successor, the Nomination & Remuneration Advisory Committee deliberates fully on matters such as the final candidate and their selection process, prior to reporting its opinion. The Board of Directors accords this report the utmost respect in passing a resolution regarding the selection.
・In response to the 5-year extension of the incumbent CEO's term of office decided in 2019, the Company developed the framework of a succession plan and launched it after obtaining approval at the Board of Directors meeting so that the successor can smoothly take over CEO's responsibilities without any problem. In this 5-year succession plan, after selecting the successor over the first three years, the successor works as the COO in cooperation with the CEO for the remaining two years. The Company aims to realize a smooth CEO succession and strengthen its management structure by making the successor have ample time to take on the responsibility to lead the Company in cooperation with the incumbent CEO. The CEO and the members of the Nomination & Remuneration Advisory Committee had fully discussed the necessary qualifications and requirements for CEO, the focal point of successor selection, training policy, etc., from a medium-to-long-term perspective, and

taking into account the Company's business environment, and then examined/implemented training programs for the carefully screened candidates so that they can fully demonstrate their ability. The members of the Nomination & Remuneration Advisory Committee had taken much time to hold in-depth discussions while collecting information from the incumbent CEO, referring to the results of the assessments conducted by external experts, and conducting personal interviews with candidates so that they can nominate the best successor among all candidates selected from inside/outside the Company. Additionally, they had regularly exchanged opinions with external Audit & Supervisory Board members. All things considered, the successor of the CEO was finally approved at the Board of Directors meeting. Toward the launch of the new management structure in January 2023, the successor of the CEO was selected in accordance with the framework of the succession plan and through the objective and transparent process mainly led by external directors and Audit & Supervisory Board members. The external directors and Audit & Supervisory Board members continue to monitor the new management structure so that the COO can, through the joint management of the CEO and COO, smoothly assume the post of CEO.

Supplementary Principle 4.3.3	The board should establish objective, timely, and transparent procedures such that a CEO is dismissed when it is determined, via an appropriate evaluation of the company's business results, that the CEO is not adequately fulfilling the CEO's responsibilities.

・In the event that a qualified person is appointed through the above process but unavoidable circumstances arise in which he or she is unable to fulfill his or her duties and responsibilities, the said CEO will be dismissed by a resolution of the Board of Directors after careful consideration by the Nomination and Remuneration Advisory Committee.

・Whether the CEO is fulfilling his or her duties and responsibilities is confirmed at the CEO Review Meeting and reviewed and confirmed at a meeting of the Nomination and Remuneration Advisory Committee convened based on the review.

Supplementary Principles 4.3.4	The establishment of effective internal control and proactive enterprise risk management systems has the potential to support sound risk-taking. The board should appropriately establish such systems on an enterprise basis and oversee the operational status, besides utilizing the internal audit department.

・A committee that oversees compliance and risk management has been set up in the Company, and while coordinating with organizations that have been set up to fulfill the compliance and risk management functions in the respective regional headquarters located in the major regions across the globe, this committee is responsible for corporate quality improvement by enhancing legitimate and fair corporate activities of the Group, and risk management. The committee proposes and reports important matters and the status of their progress to the Board of Directors through the Representative Director and President as necessary.

・The Company deploys a person in charge of promoting legitimate and fair corporate activities of the Group and risk management at each Group company and business site, plans and promotes regular training and educational activities on corporate ethics, and responds to incidents and manages risks. The department in charge of risk management shares information regularly with the persons in charge deployed within each Group company and business site.

・Internal audits conducted by the Internal Audit Department also include audits of the Company's risk management system and its operational status. The results of the audits are reported to Representative Director Chairman and CEO, Director Chief Financial Officer, and Audit & Supervisory Board members every month, and they are also reported to the Board of Directors twice a year.

Principle 4.4	*Kansayaku* and the *kansayaku* board should bear in mind their fiduciary responsibilities to shareholders and make decisions from an independent and objective standpoint when executing their roles and responsibilities including the audit of the performance of directors' duties, appointment and dismissal of *kansayaku* and external auditors, and the determination of auditor remuneration. Although so-called "defensive functions," such as business and accounting audits, are part of the roles and responsibilities expected of *kansayaku* and the *kansayaku* board, in order to fully perform their duties, it would not be appropriate for *kansayaku* and the *kansayaku* board to interpret the scope of their function too narrowly, and they should positively and proactively exercise their rights and express their views at board meetings and to the management.

・See below

Supplementary Principle 4.4.1	Given that not less than half of the *kansayaku* board must be composed of outside *kansayaku* and that at least one full-time *kansayaku* must be appointed in accordance with the Companies Act, the *kansayaku* board should, from the perspective of fully executing its roles and responsibilities, increase its effectiveness through an organizational combination of the independence of the former and the information gathering power of the latter. In addition, *kansayaku* or the *kansayaku* board should secure cooperation with outside directors so that such directors can strengthen their capacity to collect information without having their independence jeopardized.

・The Audit & Supervisory Board Members' Basic Policy stipulates that, as an independent body entrusted by shareholders, the Audit & Supervisory Board is responsible for establishing a high-quality corporate governance system that meets the trust of various stakeholders in order to ensure the soundness and sustainable growth of the Company and the Group. The Audit & Supervisory Board members audit the legality and appropriateness of the execution of duties by directors.

・The Audit & Supervisory Board members actively express their opinions by attending meetings of the Board of Directors. The full-time Audit & Supervisory Board members also attend important meetings related to business execution, such as Global Strategy Committee and HQ/SJ Compliance Committee. The external Audit & Supervisory Board members draw on their wealth of experience and knowledge in respective fields to provide necessary advice, recommendations, and opinions from an independent perspective. In addition, all Audit & Supervisory Board members hold regular meetings with the representative directors twice a year to exchange opinions on important management issues the Company is facing and to share issues based on annual audit activities, which are linked to activities aimed at resolving overall management issues, including corporate governance.

・The full-time Audit & Supervisory Board members meet individually with directors, department VPs, office managers, and other managers to exchange opinions on the current status of daily operations and issues therein. In addition to opinion exchange meetings which are held upon necessity between the representative directors and Audit & Supervisory Board members, information is also shared between the external directors and Audit & Supervisory Board members. Furthermore, the Internal Audit Department receives monthly reports on the progress and results of internal audits.

Principle 4.5	With due attention to their fiduciary responsibilities to shareholders, the directors, *kansayaku* and the management of companies should secure the appropriate cooperation with stakeholders and act in the interest of the company and the common interests of its shareholders.

・The Shiseido Code of Conduct and Ethics define the actions that must be taken and shared by each and every employee of the Shiseido Group. It sets out not only abiding by the laws of each country and region, internal rules and regulations of the Shiseido Group, but also the action standards for business conduct with the highest ethical principles. Also, the Company defines what corporate actions should be taken in relation to stakeholders (employees, customers, business partners, shareholders, and society and the Earth).

Principle 4.6	In order to ensure effective, independent and objective oversight of the management by the board, companies should consider utilizing directors who are neither involved in business execution nor have close ties with the management.

・Based on the Shiseido Group's matrix-type organizational system with brand categories and six regions combined, the Company as the global headquarters is responsible for supervising the overall Group and providing necessary support, while many of the responsibilities and authorities are delegated to the respective regional headquarters of Japan, China, Asia Pacific, the Americas, EMEA, and Travel Retail.

・We held repeated discussions with regard to an ideal corporate governance system under this matrix organization, including the composition and operation of the Board of Directors. As a result, the Board of Directors concluded that adopting the monitoring board-type system would be appropriate to ensure sufficient and effective supervisory functions over the Shiseido Group overall. Therefore, we resolved on the monitoring board-type corporate governance framework while leveraging the advantages of a company with an audit & supervisory board system.

Principle 4.7	Companies should make effective use of independent directors, taking into consideration the expectations listed below with respect to their roles and responsibilities: i) Provision of advice on business policies and business improvement based on their knowledge and experience with the aim to promote sustainable corporate growth and increase corporate value over the mid-to long-term; ii) Monitoring of the management through important decision-making at the board including the appointment and dismissal of the senior management; iii) Monitoring of conflicts of interest between the company and the management or controlling shareholders; and iv) Appropriately representing the views of minority shareholders and other stakeholders in the boardroom from a standpoint independent of the management and controlling shareholders.

・In cases when the Board of Directors resolves management policies, such as medium-to-long-term strategies, or makes decisions on other important matters, external directors utilize their respective experience and knowledge to present opinions, ask questions and provide advice from an independent standpoint. The Board accords the utmost respect to these opinions upon making decisions.

Principle 4.8	Independent directors should fulfill their roles and responsibilities with the aim of contributing to sustainable growth of companies and increasing corporate value over the mid-to long-term. Companies listed on the Prime Market should therefore appoint at least one-third of their directors as independent directors (two directors if listed on other markets) that sufficiently have such qualities. Irrespective of the above, if a company listed on the Prime Market believes it needs to appoint the majority of directors (at least one-third of directors if listed on other markets) as independent directors based on a broad consideration of factors such as the industry, company size, business characteristics, organizational structure and circumstances surrounding the company, it should appoint a sufficient number of independent directors.

・The Company sets the number of its external directors at three or above to allow such members a certain degree of influence within the Board. In addition, the Company has established a target of electing half or more of its directors from outside.

・In selecting external directors and Audit & Supervisory Board members, high priority is given to independence. Our basic principle is that candidates are required to meet the Company's "Criteria for Independence of External Directors and Audit & Supervisory Board Members" as well as possess highly independent thinking.

Supplementary Principle 4.8.1	In order to actively contribute to discussions at the board, independent directors should endeavor to exchange information and develop a shared awareness among themselves from an independent and objective standpoint. Regular meetings consisting solely of independent directors (executive sessions) would be one way of achieving this.

・The CEO Review Meeting has been established as a deliberation body comprised of all external directors and all external Audit & Supervisory Board members. The body's mission is to deliberate performance evaluation for President and CEO, as well as to hold discussions and share views solely between independent external members on topics that require objectivity and transparency. In addition, external directors also voluntarily attend accounting auditor's audit results report meetings and exchange opinions with Audit & Supervisory Board members to share company information.

Supplementary Principle 4.8.2	Independent directors should endeavor to establish a framework for communicating with the management and for cooperating with *kansayaku* or the *kansayaku* board by, for example, appointing the lead independent director from among themselves.

・The Nomination and Remuneration Advisory Committee, which plays an important role in corporate governance, is chaired by an external director. The Committee discusses the selections of candidates for directors and Audit & Supervisory Board members, promotion and demotion of corporate officers and executive officers, the system of executive compensation and its content based on executive performance evaluations. These discussions are led by the Chair, who is an external director. The Chair also serves as the lead external director who cooperates and coordinates with the management team, collaborates with the Audit & Supervisory Board members and the Audit & Supervisory Board, and facilitates cooperation by providing opportunities for informal discussions and other means.

Supplementary Principle 4.8.3	Companies that have a controlling shareholder should either appoint at least one-third of their directors (the majority of directors if listed on the Prime Market) as independent directors who are independent of the controlling shareholder or establish a special committee composed of independent persons including independent director(s) to deliberate and review material transactions or actions that conflict with the interests of the controlling shareholder and minority shareholders.

・The Company does not have a controlling shareholder.

Principle 4.9	Boards should establish and disclose independence standards aimed at securing effective independence of independent directors, taking into consideration the independence criteria set by securities exchanges. The board should endeavor to select independent director candidates who are expected to contribute to frank, active and constructive discussions at board meetings.

・The Company establishes its own rules of "Criteria for Independence of the External Directors and Audit & Supervisory Board Members" with reference to foreign laws and regulations and listing rules, etc. for the purpose of making objective assessment on the independence of the external directors and Audit & Supervisory Board members.

・In connection with selecting candidates for the External Directors and Audit & Supervisory Board Members, the Company places emphasis on a high degree of independence of the candidate from the viewpoint of strengthening corporate governance and accordingly, the Company makes judgment on whether or not the candidate has a high degree of independence in accordance with the Criteria.

Principle 4.10	In adopting the most appropriate organizational structure (as stipulated by the Companies Act) that is suitable for a company's specific characteristics, companies should employ optional approaches, as necessary, to further enhance governance functions.

・See below

Supplementary Principle 4.10.1	If the organizational structure of a company is either Company with *Kansayaku* Board or Company with Supervisory Committee and independent directors do not compose a majority of the board, in order to strengthen the independence, objectivity and accountability of board functions on the matters of nomination (including succession plan) and remuneration of the senior management and directors, the company should seek appropriate involvement and advice from the committees, including from the perspective of gender and other diversity and skills, in the examination of such important matters as nominations and remuneration by establishing an independent nomination committee and remuneration committee under the board, to which such committees make significant contributions. In particular, companies listed on the Prime Market should basically have the majority of the members of each committee be independent directors, and should disclose the mandates and roles of the committees, as well as the policy regarding the independence of the composition.

・The Company has established the Nomination and Remuneration Advisory Committee, which is chaired by an external director and consists of a majority of external directors, to deliberate and report to the Board of Directors on the nomination and remuneration of directors and executive officers. The Nomination and Remuneration Advisory Committee deliberates on the nomination, performance evaluation, and remuneration system of directors and executive officers, presents its opinions to the Board of Directors, formulates and monitors the CEO succession plan, deliberates on the nomination and remuneration of the CEO, and presents its opinions to the Board of Directors (the CEO does not participate in deliberations on the CEO). The Board of Directors shall, in principle, respect the opinions of the Nomination and Remuneration Advisory Committee, which consists of a majority of external directors and focuses on independence and objectivity in deliberations and consensus building with respect to the nomination and remuneration of executives and the CEO.

Principle 4.11	The board should be well balanced in knowledge, experience and skills in order to fulfill its roles and responsibilities, and it should be constituted in a manner to achieve both diversity, including gender, international experience, work experience and age, and appropriate size. In addition, persons with appropriate experience and skills as well as necessary knowledge on finance, accounting, and the law should be appointed as *kansayaku*. In particular, at least one person who has sufficient expertise on finance and accounting should be appointed as *kansayaku*.

	The board should endeavor to improve its function by analyzing and evaluating effectiveness of the board as a whole.

・See below

Supplementary Principle 4.11.1	The board should identify the skills, etc. that it should have in light of its managing strategies, and have a view on the appropriate balance between knowledge, experience and skills of the board as a whole, and also on diversity and appropriate board size. Consistent with its view, the board should establish policies and procedures for nominating directors and disclose them along with the combination of skills, etc. that each director possesses in an appropriate form according to the business environment and business characteristics, etc., such as what is known as a "skills matrix." When doing so, independent director(s) with management experience in other companies should be included.

・Shiseido requires its directors and Audit & Supervisory Board members to supervise business execution and conduct decision-making on critical matters; therefore, we encourage various viewpoints and backgrounds in addition to diverse and sophisticated skills. When selecting candidates, we place importance on ensuring diversity, taking into account not only gender equality, but also other attributes such as age, nationality, personality, as well as insights and experiences in various fields related to management.

・The Company discloses the skills and expertise required of its directors and Audit & Supervisory Board members in the form of a matrix:

・The Company has set a certain maximum term of office for external directors and Audit & Supervisory Board members in order to reflect their independent views to our management, and by allowing a handover period from long-serving external directors and Audit & Supervisory Board members to newly appointed ones to ensure appropriate transition. Moreover, we ensure fruitful discussions at the meetings of the Board of Directors as executive officers in charge of relevant domains join the meetings depending on the agenda and provide necessary explanations.

Supplementary Principle 4.11.2	Outside directors, outside *kansayaku*, and other directors and *kansayaku* should devote sufficient time and effort required to appropriately fulfill their respective roles and responsibilities. Therefore, where directors and *kansayaku* also serve as directors, *kansayaku* or the management at other companies, such positions should be limited to a reasonable number and disclosed each year.

・The Company has set forth criteria for "important concurrent positions" assumed by its external directors and Audit & Supervisory Board members and describes the status of such concurrent positions in the Business Report accompanying the Notice of Convocation of the Ordinary General Meeting of Shareholders based thereon. Candidates are selected upon confirmation that their multiple concurrent positions, if any, will not impede their execution of duties, such as at the Board of Directors of the Company.

Supplementary Principle 4.11.3	Each year the board should analyze and evaluate its effectiveness as a whole, taking into consideration the relevant matters, including the self-evaluations of each director. A summary of the results should be disclosed.

・The Company evaluates the effectiveness of its Board of Directors on a regular basis to identify issues and required improvements. Questionnaires and interviews for all directors and Audit & Supervisory Board members are conducted every year to evaluate and analyze the activities of the Board of Directors, the Nomination & Remuneration Advisory Committee, and the Audit & Supervisory Board, as well as the support system by the secretariat. The results are collected and analyzed by the secretariat of the Board of Directors.

Principle 4.12	The board should endeavor to foster a climate where free, open and constructive discussions and exchanges of views take place, including the raising of concerns by outside directors.

・See below

Supplementary Principle 4.12.1	The board should ensure the following in relation to the operation of board meetings and should attempt to make deliberations active: i) Materials for board meetings are distributed sufficiently in advance of the meeting date; ii) In addition to board materials and as necessary, sufficient information is provided to directors by the company (where appropriate, the information should be organized and/or analyzed to promote easy understanding); iii) The schedule of board meetings for the current year and anticipated agenda items are determined in advance; iv) The number of agenda items and the frequency of board meetings are set appropriately; and v) Sufficient time for deliberations.

・Materials for the Board of Directors' meetings are in principle distributed in advance. On the day of the meeting, the department in charge of proposal provides detailed explanations of the materials, followed by a Q&A session to ensure that sufficient information necessary for deliberation is provided.

・The representative directors contact the directors and Audit & Supervisory Board members of the Company by email or other means whenever necessary for follow-up information after resolutions and reports are made at Board meetings, and for important and emergency information.

・The next year's schedule for Board meetings is decided in advance upon coordination with directors, Audit & Supervisory Board members, and related internal divisions. The plan for the next year's deliberations is reported at the year-end Board meeting.

・After extensive discussions at the Board of Directors were held with regard to the corporate governance of the Company during fiscal 2015 and also assessment of the effectiveness of the Board of Directors was performed, and in light of the decision that the Company will adopt the "monitoring board-type corporate governance," the Company made revisions of matters that needed to be deliberated and decided at the meetings of the Board of Directors as well as the number of meetings to be held annually. Through these efforts, the Company strives to ensure sufficient time for deliberation on important agendas such as medium-to-long-term strategies and sustainability-focused management.

Principle 4.13	In order to fulfill their roles and responsibilities, directors and *kansayaku* should proactively collect information, and as necessary, request the company to provide them with additional information. Also, companies should establish a support structure for directors and *kansayaku*, including providing sufficient staff. The board and the *kansayaku* board should verify whether information requested by directors and *kansayaku* is provided smoothly.

・See below

Supplementary Principle 4.13.1	Directors, including outside directors, should request the company to provide them with additional information, where deemed necessary from the perspective of contributing to transparent, fair, timely and decisive decision-making. In addition, *kansayaku*, including outside *kansayaku*, should collect information appropriately, including the use of their statutory investigation power.

・In principle,　materials for Board of Directors' meetings are share online with external directors in advance, and a system has been established to enable timely exchange of questions and items to be confirmed via email, etc.

・Regarding Audit & Supervisory Board members, in addition to the attendance of the Board of Directors, which are compulsory statutory meetings, the full-time Audit & Supervisory Board members are secured with opportunities to attend important meetings related to business execution, such as Global Strategy Committee, as well as Global Risk Management & Compliance Committee and HQ/SJ Compliance Committee as observers, and reports and information are provided to the Audit & Supervisory Board members through these meetings. Moreover, when requested by the Audit & Supervisory Board members, materials and information on these meetings are provided.

・A separate and direct email route to the Audit & Supervisory Board members, which allows the Audit & Supervisory Board members to directly receive reports on events that may damage the trust of the Shiseido Group, has been established as part of the internal whistle-blowing hotline system. Information on the email route is provided to employees in Japan through training for new hires and training on harassment for all employees.

Supplementary Principle 4.13.2	Directors and *kansayaku* should consider consulting with external specialists at company expense, where they deem it necessary.

・The Nomination and Remuneration Advisory Committee, which is composed only of external directors and the President and CEO, invites experts from outside the Company to provide advice on the design of executive compensation and other matters. In addition, we have been inviting external experts to exchange opinions and information with directors and Audit & Supervisory Board members and will continue to do so as necessary in the future.

Supplementary Principle 4.13.3	Companies should ensure coordination between the internal audit department, directors and *kansayaku* by establishing a system in which the internal audit department appropriately reports directly to the board and the *kansayaku* board in order for them to fulfill their functions. In addition, companies should take measures to adequately provide necessary information to outside directors and outside *kansayaku*. One example would be the appointment of an individual who is responsible for communicating and handling requests within the company such that the requests for information about the company by outside directors and outside *kansayaku* are appropriately processed.

・In accordance with the Internal Audit Department Operations Manual (including the Internal Audit Regulations), our Internal Audit Department verifies the establishment and operation of internal controls for the entire Group from the perspectives of the effectiveness and efficiency of operations, reliability of financial reporting, compliance with related laws and regulations and company internal regulations, and the preservation of the Company's assets. It also evaluates the adequacy and effectiveness of risk management and provides advice and recommendations for improvement.

・The results of internal audits are reported to Representative Director Chairman and CEO, Director Chief Financial Officer, and Audit & Supervisory Board members every month, and they are also reported to the Board of Directors twice a year.

Principle 4.14	New and incumbent directors and *kansayaku* should deepen their understanding of their roles and responsibilities as a critical governance body at a company, and should endeavor to acquire and update necessary knowledge and skills. Accordingly, companies should provide and arrange training opportunities suitable to each director and *kansayaku* along with financial support for associated expenses. The board should verify whether such opportunities and support are appropriately provided.

・See below

Supplementary Principle 4.14.1	Directors and *kansayaku*, including outside directors and outside *kansayaku*, should be given the opportunity when assuming their position to acquire necessary knowledge on the company's business, finances, organization and other matters, and fully understand the roles and responsibilities, including legal liabilities, expected of them. Incumbent directors should also be given a continuing opportunity to renew and update such knowledge as necessary.

・The Company provides new directors and new Audit & Supervisory Board members with training regarding legal and statutory authorities and obligations, etc. In addition, when a new external director or external Audit & Supervisory Board member is scheduled to come on board, the Company provides training regarding the industry it operates in, its history, business overview, strategy, etc.

・Furthermore, to promote understanding of the Company among external directors and external Audit & Supervisory Board members, they are provided with such opportunities as attending internal meetings and lectures by external experts on annual business strategies and business management issues.

Supplementary Principle 4.14.2	Companies should disclose their training policy for directors and *kansayaku*.

・The Company believes that in addition to appointing personnel having credentials required to serve as directors, Audit & Supervisory Board members, or executive officers, it is important to provide them with necessary training and information.

・The Company provides new directors and new Audit & Supervisory Board members with training regarding legal and statutory authorities and obligations, etc. In addition, the Company provides new external directors with training regarding the industry it operates in, its history, business overview, strategy, material risks etc. (approximately once a year for each subject).

Section 5

Dialogue with Shareholders	
General Principle 5	In order to contribute to sustainable growth and the increase of corporate value over the mid-to long-term, companies should engage in constructive dialogue with shareholders even outside the general shareholder meeting. During such dialogue, senior management and directors, including outside directors, should listen to the views of shareholders and pay due attention to their interests and concerns, clearly explain business policies to shareholders in an understandable manner so as to gain their support, and work for developing a balanced understanding of the positions of shareholders and other stakeholders and acting accordingly.

・See below

Principle 5.1	Companies should, positively and to the extent reasonable, respond to the requests from shareholders to engage in dialogue (management meetings) so as to support sustainable growth and increase corporate value over the mid-to long-term. The board should establish, approve and disclose policies concerning the measures and organizational structures aimed at promoting constructive dialogue with shareholders.

・The Company fully recognizes that timely and appropriate disclosure of corporate information to investors forms the basis of a sound securities market. We make constant efforts to improve our internal systems and maintain investors' point of view to ensure prompt, accurate, and fair disclosure of corporate information to all investors at the same time. Through these efforts, we aim to provide timely and appropriate corporate information to investors and have published a policy on information disclosure.

Supplementary Principle 5.1.1	Taking the requests and interests of shareholders into consideration, to the extent reasonable, the senior management, directors, including outside directors, and *kansayaku*, should have a basic position to engage in dialogue (management meetings) with shareholders.

・The CEO, COO and CFO of the Company actively engage in dialogue with shareholders and express their thoughts as senior management on the Company's initiatives.

・External directors are also provided with opportunities to express their independent opinions on the governance of the Company, such as conferences hosted by securities companies, the integrated report, etc.

・The Company's Audit & Supervisory Board members have no track record of engagement in shareholder dialogue, but we will consider such opportunities in the future based on the needs of our shareholders.

Supplementary Principle 5.1.2	At minimum, policies for promoting constructive dialogue with shareholders should include the following: i) Appointing a member of the management or a director who is responsible for overseeing and ensuring that constructive dialogue takes place, including the matters stated in items ii) to v) below; ii) Measures to ensure positive cooperation between internal departments such as investor relations, corporate planning, general affairs, corporate finance, accounting and legal affairs with the aim of supporting dialogue;

	iii) Measures to promote opportunities for dialogue aside from individual meetings (e.g., general investor meetings and other IR activities); iv) Measures to appropriately and effectively relay shareholder views and concerns learned through dialogue to the senior management and the board; and v) Measures to control insider information when engaging in dialogue.

・The Company has established and disclosed the "Basic Policy on Information Disclosure and Dialogue with Shareholders and Investors", which establishes our basic policy on information disclosure, standards, method, and system for information disclosure, as well as outlines our initiatives for a constructive dialogue with shareholders and investors and management of insider information.

Supplementary Principle 5.1.3	Companies should endeavor to identify their shareholder ownership structure as necessary, and it is desirable for shareholders to cooperate as much as possible in this process.

・Based on the shareholder register, which is updated every six months, the Company conducts a survey of institutional investors to identify the actual shareholders and uses it as a basis for shareholder dialogue.

Principle 5.2	When establishing and disclosing business strategies and business plans, companies should articulate their earnings plans and capital policies, and present targets for profitability and capital efficiency after accurately identifying the company's cost of capital. Also, companies should provide explanations that are clear and logical to shareholders with respect to the allocation of management resources, such as reviewing their business portfolio and investments in fixed assets, R&D, and human capital, and specific measures that will be taken in order to achieve their plans and targets.

・See below

Supplementary Principle 5.2.1	In formulating and announcing business strategies, etc., companies should clearly present the basic policy regarding the business portfolio decided by the board and the status of the review of such portfolio.

・The Company develops medium-to-long-term strategies in periods of three years based on discussions by its Board of Directors. This includes development of the business portfolio and sales strategies based on the analysis of recent global market trends, consumer purchasing behavior, and other factors. These are disclosed in an easy-to-understand visual form.

・These strategies undergo appropriate revisions based on quarterly financial results. The contents of the revisions are disclosed in materials for quarterly results briefings and presented to a broad range of investors via our corporate website and other media.

Remuneration for Directors, Audit & Supervisory Board Members and Executive Officers

1. Basic Philosophy of the Remuneration to Directors and Executive Officers of the Company

The Company regards the directors and executive officers remuneration policy (remuneration policy for the executive officers including directors who concurrently serve as the executive officers) as an important matter for corporate governance. For this reason, in accordance with the following basic philosophy, the directors and executive officers remuneration policy of the Company is deliberated in the Nomination & Remuneration Advisory Committee chaired by an external director to incorporate objective points of view, and the outcome is reported to the Board of Directors for the resolution.

Basic philosophy and policy of the remuneration to directors and executive officers

The remuneration policy to directors and executive officers shall:

1. encourage to realize the corporate mission;
2. aim to ensure attractive remuneration to acquire and retain top talent in global talent market;
3. aim to enhance the long-term corporate value and strongly incentivize to achieve the company's long-term vision and medium- to long-term strategy;
4. have a mechanism incorporated to prevent overemphasis on short-term views while instilling motivation to achieve short-term goals;
5. be designed as transparent, fair and reasonable from the viewpoint of accountability to stakeholders including shareholders and employees, and remuneration shall be determined through appropriate processes to ensure those points.
6. be designed to establish remuneration standards based on the significance (Grade) of role/responsibility reflecting the mission of respective directors and executive officers, and differentiate remuneration according to the level of strategic target accomplished (achievements).

2. The Company’s Directors and Executive Officers Remuneration Policy

Based on the above basic philosophy, the Board of Directors of the Company has resolved its policy on decisions regarding matters including remuneration, etc. of individual directors.
The Company's directors and executive officers remuneration policy, including an outline of the contents of the policy on decisions regarding matters including remuneration, etc. of individual directors, is described below in detail.

■ Overall picture

The remuneration of the directors and executive officers of the Company comprises "basic remuneration" as fixed remuneration as well as "annual incentive" and "long-term incentive-type remuneration (non-monetary remuneration)" as performance-linked remuneration, and the Company sets remuneration levels by benchmarking peer companies in the same business industry or in the similar business size inside or outside Japan and by taking the Company's financial condition into consideration. Matters including remuneration, etc. of individual directors are determined at the Board of Directors meetings after deliberations by the Nomination & Remuneration Advisory Committee. Matters including

remuneration, etc. of individual directors for the fiscal year ended December 31, 2022 were deliberated on by the Nomination & Remuneration Advisory Committee, while taking into account the social conditions and economic situation surrounding the Company, according to the specific remuneration framework and indicators designed based on the policy on decisions regarding matters including remuneration, etc. of individual directors. They were then reported to the Board of Directors, and the Board of Directors made decisions on matters including remuneration in deference to the said report. The Company therefore determines that matters including remuneration, etc. are in line with the aforementioned policy on decisions.
External directors and Audit & Supervisory Board members receive only basic remuneration(fixed remuneration), as variable remuneration such as performance-linked remuneration is inconsistent with their supervisory roles independent from business execution. Furthermore, the Company does not have an officers' retirement benefit plan, and none of the directors or the Audit & Supervisory Board members was paid remuneration other than described above.

〔The proportion of each remuneration element for directors eligible for the payment by remuneration type and rank as executive officer〕

The proportion of remuneration is set by Grade, and the higher the Grade becomes, the higher the proportion of performance-linked remuneration becomes.

Rank as Executive Officer	Composition of Remuneration for Directors and Executive Officers			
	Basic Remuneration	Performance-linked Remuneration		Total
		Annual Incentive	Long-Term Incentive-Type Remuneration	
Chairman and CEO	33.3%	33.3%	33.3%	100%
President, Executive Vice President, Senior Executive Officer and Executive Officer	36%~63%	18.5%~32%	18.5%~32%	

Notes :

1. The proportions shown in the above table may change depending on the Company's performance and/or its stock price's fluctuation, as financial value of performance-linked remuneration is shown at target where the Company pays 100%.
2. There is no differentiated proportion of each remuneration element for directors pegged to having a representation right.
3. Because different remuneration tables will be applied depending on the Grade of executive officers, proportions of each individual remuneration element will vary even within a same rank.

■ Basic remuneration

The Company designs basic remuneration in accordance with Grades based on the size and level of responsibility of executive officers in charge, as well as the impact on business management of the Group. In addition, even at the same grade, the basic remuneration may increase within a certain range based on the individual executive's performance for the previous fiscal year (numerical business performance and personal performance evaluation). This ensures the Company to reward executive officers for their individual outstanding achievement.
Basic remuneration for executive is determined by the Board of Directors after deliberations by the Nomination & Remuneration Advisory Committee, and is paid in equal installments every month.
For external directors and Audit & Supervisory Board members, the Company shall pay fixed remuneration only, which is determined in accordance with their respective roles.

■ Performance-linked remuneration

The performance-linked remuneration consists of an "annual incentive" provided as an incentive for achieving goals for the corresponding fiscal year, and "performance-linked stock compensation (performance share units) as long-term incentive-type remuneration" provided with the aims of establishing a sense of common interests with the shareholders and instilling motivation to enhance corporate value over the medium to long term. Accordingly, it is designed to motivate the directors and executive officers to manage business operations while being more conscious about the

Company's performance and share price from the perspectives of not only a single year but also over the medium to long term.

■ Annual incentive

Of the performance-linked remuneration the Company has set evaluation items for the annual incentive in accordance with the scope that executive officers are in charge of as described in the table below, in addition to the achievement rate of target consolidated net sales and core operating profit which are financial indicators, as common performance indicators across executive officers, and the range of changes in the percentage amount of payment is set between 0% and 200%. Although it is essential that the entire management team remain aware of matters involving profit attributable to owners of parent, it is crucial that management not let the benchmark weigh too heavily on proactive efforts particularly involving future growth-oriented investment and resolving challenges with our sights set on achieving long-term growth. As such, upon the Nomination & Remuneration Advisory Committee deliberation, the Company has preliminarily established certain performance standards (thresholds) as described in the table below, with the evaluation framework designed so that the Nomination & Remuneration Advisory Committee will consider the possibility of lowering the percentage amount of the annual incentive payment attributable to the whole group performance component of the total annual incentive, if results fall below the thresholds. In determining the achievement rate of each target and threshold for consolidated net sales, core operating profit and profit attributable to owners of parent, actual performance may be adjusted by resolution of the Board of Directors following deliberation by the Nomination & Remuneration Advisory Committee. In cases where such adjustments are made, it shall be stated in the disclosure materials of the actual remuneration of directors.
In addition, we set the personal performance evaluation of all directors and executive officers in order to add the level of achievement regarding strategic goals that cannot be measured by the financial performance figures alone, such as efforts for restructuring of the business platform to realize sustainable growth, to evaluation criteria.
Annual incentive is paid once a year.

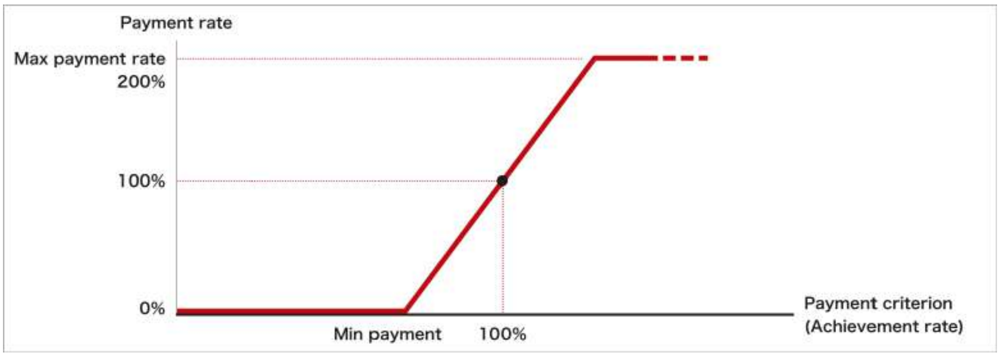
〔Performance indicators and evaluation weights for annual incentive for directors eligible for the payment as executive officers〕

<table>
<tr><th rowspan="3">Evaluation Item</th><th rowspan="3">Performance Indicators</th><th colspan="8">Evaluation Weight</th></tr>
<tr><th colspan="2" rowspan="2">CEO and COO</th><th colspan="4">Executive Officers in Charge of Businesses</th><th colspan="2">Executive Officers Other than Those in Charge of Businesses</th></tr>
<tr><th colspan="2">Regional Headquarters President</th><th colspan="2">Other</th><th colspan="2">Corporate Function</th></tr>
<tr><td rowspan="3">Whole Group Performance</td><td>Consolidated net sales</td><td>30%</td><td rowspan="2">70%</td><td>10%</td><td rowspan="2">20%</td><td>10%</td><td rowspan="2">20%</td><td>30%</td><td rowspan="2">70%</td></tr>
<tr><td>Core operating profit</td><td>40%</td><td>10%</td><td>10%</td><td>40%</td></tr>
<tr><td>Profit attributable to owners of parent</td><td colspan="8">If this amount ends up below the threshold, the Nomination & Remuneration Advisory Committee will consider lowering the percentage amount of the payment attributable to the whole group performance component.</td></tr>
<tr><td>Performance of Business Unit in Charge</td><td>Business performance</td><td colspan="2">–</td><td colspan="2">50%</td><td colspan="2">50%</td><td colspan="2">–</td></tr>
<tr><td rowspan="2">Personal Performance</td><td rowspan="2">Level of achievement of strategic goals set individually</td><td colspan="8">30%</td></tr>
<tr><td colspan="8">Strategically prioritized transformations and initiatives for realizing our long-term vision and strategy, building and strengthening organizational capabilities to realize said transformations and initiatives, own growth goals and recommendations to the CEO</td></tr>
</table>

Notes :

There is no difference in the performance indicators and the weight of performance indicators applied to directors based on whether a director has a representation right or otherwise.

〔Model of annual incentive payment rate〕



■ Long-term incentive-type remuneration

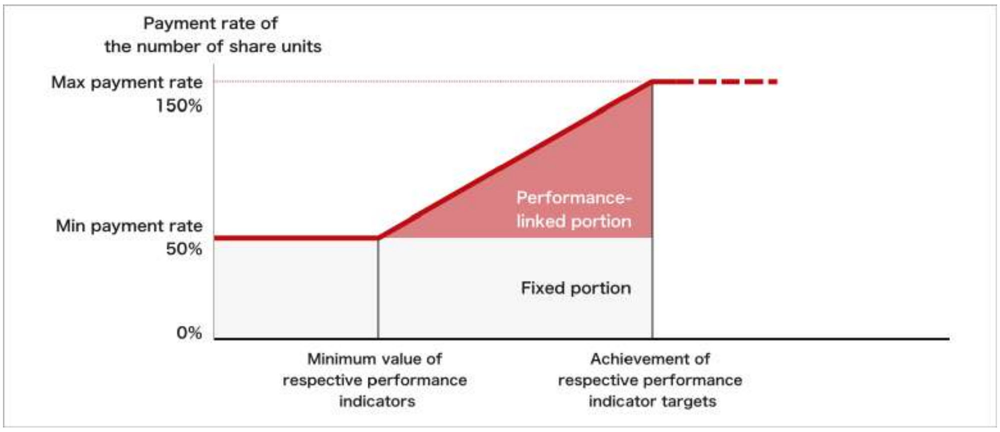
From fiscal 2019, the Company has introduced performance share units, a type of performance-linked stock compensation, and has incentivized the creation of corporate value over the medium to long term through annual payments. As performance indicators to evaluate the enhancement of economic value amid the current COVID-19 pandemic, a mix of quantitative targets to be aimed for with a long-term perspective has been set under the medium-to long-term strategy "WIN 2023 and Beyond." In addition, as benchmarks on creation of social value, the Company has set multiple internal and external indicators pertaining to the environment, society and governance (ESG). Accordingly, the remuneration is designed for the purpose of creating corporate value from both aspects of economic and social values, as well as establishing a sense of common interests with shareholders.

〔Purposes of introducing the LTI〕

The LTI is adopted for the purposes of establishing effective incentives for creating and maintaining corporate value over the long term, and ensuring that the directors' interests consistently align with those of our shareholders. To such ends, the LTI will help:
i) promote efforts to create value by achieving our long-term vision and strategic goals,
ii) curb potential damage to the corporate value and maintain substantial corporate value over the long term,
iii) attract and retain talent capable of taking on leadership in business, and
iv) realize a "Global One Team" by fostering a sense of solidarity among management teams of the entire Shiseido Group and instilling the consciousness of participating in the running of the Company.

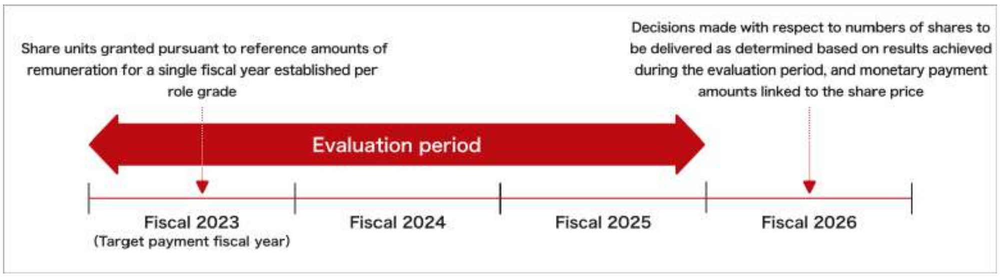
Under the Company's performance share units, the Company will allot a reference share unit to each of the eligible parties once every fiscal year, and on each annual allotment, the number of fiscal years that the payment relates to shall be one fiscal year. To make such allotments, the Company shall establish multiple performance indicators whose evaluation period is for three years including the fiscal year related to the payment. The Company shall use the respective achievement ratios of each performance indicator to calculate the payment rate in a range from 50% to 150% after the end of the evaluation period, and it shall use the payment rate to increase or decrease the number of share units. The eligible parties shall be paid monetary remuneration claims for the delivery of the shares of the Company's common stock and cash corresponding to the applicable number of share units, and then each eligible party shall receive delivery of shares of common stock of the Company by paying all the monetary remuneration claims using the method of contribution in kind. Meanwhile, it features a fixed portion involving a set payment in addition to its performance-linked portion. As such, the LTI is designed to help eligible parties realize the aims of more robustly ensuring that their sense of interests consistently aligns with those of our shareholders, curbing potential damage to corporate value and maintaining substantial corporate value over the long term, and helping to attract and retain competent talent.

〔Model for payment rate of the number of share units for the LTI〕



The evaluation period with fiscal 2023 as the fiscal year that the payment relates to covers the three fiscal years from January 1, 2023, through December 31, 2025, and determination of the amount of monetary remuneration claims for the delivery of the Company's common stock and cash and their payment to Eligible Directors will take place after the evaluation period has ended, in principle. Furthermore, under the LTI, monetary remuneration claims for the delivery of the Company's common stock and cash will be paid in accordance with the level of achievement of performance indicators, etc., and therefore, at the time share units are granted, it is undetermined whether or not this delivery or payment of remuneration, etc. to each Eligible Director will take place. Likewise, the number of shares of the Company's common stock, the amount of monetary remuneration claims for delivery of the Company's common stock, and the amount of cash are also undetermined.

〔LTI schedule〕



〔Structure of the LTI〕

The specific structure of the LTI is as follows:

1) The LTI has a performance-linked portion and a fixed portion.
2) Performance indicators linked with the medium-term business plan, etc. shall be used for the performance-linked portion, and the percentage amount of payment, etc. attributable to the level of achievement, etc. of each performance indicator required for the specific calculation of the number of shares, etc. to be delivered to each Eligible Director will be determined. The Board of Directors of the Company will determine these performance indicators and the percentage amount of payment, etc., following deliberation by the Nomination & Remuneration Advisory Committee.
3) The overall picture of the performance indicators and their weights under the LTI is shown in the table below. Among the performance indicators, we have established upper and lower valuation limits for the core operating profit margin and the consolidated average annual growth rate (CAGR) in the final fiscal year of the evaluation period, which are economic evaluation indicators. If the upper valuation limit is achieved, the maximum percentage amount of payment for each indicator is applied, and if the performance falls below the lower valuation limit, the performance-linked portion is not paid for each indicator. With regard to the indicators of environment and society among the social value indicators, the achievement or non-achievement of the target is judged for each of the indicators, and if the target is achieved, the maximum percentage amount of payment for each indicator is applied. If the target is not achieved, the performance-linked portion is not paid for each indicator, and for ESG in general, the target value is set, and the percentage amount of payment fluctuates according to the level of achievement.

〔Performance indicators and evaluation weights for performance-linked portion of the LTI〕

Evaluation Item	Performance Indicators		Evaluation Weight	
Economic Value Indicators	Core operating profit margin for the final fiscal year of the evaluation period		50%	100%
	Consolidated net sales compound average growth rate (CAGR)		30%	
Social Value Indicators	Environment	Status of the achievement of the CO_2 emissions reduction target	20%	
	Society	Ratio of female managers/leaders in Japan and overseas at the Company, and the status of inclusion in the indices related to the promotion of women by ESG rating agencies designated by the Company		
	ESG in general	Evaluation scores by ESG rating agencies designated by the Company		
Economic Value Indicator	Consolidated ROE		If this falls below the threshold, the Nomination & Remuneration Advisory Committee will consider lowering the percentage amount of the payment attributable to the performance-linked portion.	

4) The fixed portion is provided for the purpose of sharing a sustainable sense of profit with shareholders, checking the impairment of corporate value and maintaining high corporate value over the long term, and acquiring and maintaining talented human resources by stably providing certain stock compensation to Eligible Directors.
5) After the end of the evaluation period, the Board of Directors shall determine the number of shares of the Company's common stock to be allotted to each Eligible Director and the amount of cash to be paid, following deliberation by the Nomination & Remuneration Advisory Committee, in accordance with the percentage amount of payment (which fluctuates in the range between 50% and 150%) determined according to the level of achievement, etc. of each performance indicator. In the event the Nomination & Remuneration Advisory Committee determines that an unexpected external factor, etc., which was difficult to reasonably foresee when setting targets under the medium-term business plan, etc., occurs, the Committee shall conduct careful deliberation by comprehensively considering such factor, and the Board of Directors may, if it is deemed appropriate, decide to adjust the percentage amount of payment with respect to the performance indicator related to economic value among the performance indicators.
6) Pursuant to a resolution by the Board of Directors, the Company will pay monetary remuneration claims for the delivery of the Company's common stock to each Eligible Director, in accordance with the number of shares of the Company's common stock to be allotted to each Eligible Director as determined in item 5), and each Eligible Director will receive delivery of the Company's common stock by providing all of the monetary remuneration claims as contributions in kind. Furthermore, the amount paid for the Company's common stock will be determined by the Company's Board of Directors based on the Share Price at Time of Delivery within a range that is not especially advantageous for each Eligible Director subscribing to the Company's common stock.
7) Each Eligible Director will incur tax expenses in accordance with the delivery of the Company's shares as described in item 6), and therefore the Company will pay each Eligible Director an amount of cash determined in item 5) in addition to the monetary remuneration claims in item 6), in order to secure funds for these tax expenses.
8) Conditions for the delivery of shares to each Eligible Director and other details will be determined by the Board of Directors.

〔Conditions for Payment of Remuneration, etc. based on the LTI〕

The Company will pay remuneration, etc. based on the LTI to Eligible Directors who fulfill the following conditions. Delivery of the Company's common stock shall be conducted by issuing shares or disposing of treasury stock, and the Board of Directors shall determine the Eligible Directors to whom the Company's common stock will be delivered and matters related to subscription for the issuance of shares or disposal of treasury stock after the evaluation period has ended, in accordance with the below conditions 1) through 3) and the calculation method described above.

1) The required period in office must be fulfilled (must have served continuously in the position of director or executive officer of the Company or a subsidiary of the Company during the entire period of the fiscal year that the payment relates to, etc.).

2) When retiring prior to the vesting of rights, the retirement must not be due to disciplinary action or such like.
3) Any other conditions set forth by the Board of Directors as necessary to achieve the intent of the LTI must be fulfilled.

Under the LTI, the Company has introduced the malus and clawback provisions. In certain conditions, such as in case of serious misconduct of Eligible Directors, the Board of Directors is entitled to make the decision to reduce the number of the share units or receive a refund.

〔Treatment when Eligible Directors Retire〕

Even if an Eligible Director loses his/her position as a director or executive officer of the Company or any of its subsidiaries during the evaluation period, such Eligible Director may be provided with the number of shares of the Company's common stock and/or cash prorated based on a reasonable method prescribed by the Company's Board of Directors of no more than the Maximum Payment Amount and the Maximum Number of Shares to be Delivered corresponding to the nature of the reason for loss of the aforementioned position in case certain requirements such as the conditions for payment described above are fulfilled at the timing prescribed by the Board of Directors. In addition, if as a result of the resignation of Eligible Directors, payments of remuneration, etc. are made under the terms of the LTI before the end of the evaluation period, the number of shares to be delivered or the amount paid to such Eligible Directors shall be computed using the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day preceding the date of resolution of the Board of Directors of the Company concerning said payments (if no trades are made on this day, the closing price on the most recent preceding trading day).

■ Amount of Remuneration, etc. to Directors and Audit & Supervisory Board Members for the Fiscal Year Ended December 31, 2022

(Millions of yen)

	Basic Remuneration	Annual Incentive	Total of the left* (a)	Long-Term Incentive (Stock Compensation) (b)	Total [(a)+(b)]
Directors (9 persons)	361	225	587	308	895
External Directors Among Directors (5 persons)	56	–	56	–	56
Audit & Supervisory Board Members (5 persons)	104	–	104	–	104
External Audit & Supervisory Board Members Among Audit & Supervisory Board Members (3 persons)	39	–	39	–	39
Total	465	225	691	308	999

*Total remuneration in cash that has been confirmed by March 2022

Notes:

1. The total amount of the basic remuneration and annual incentive for directors has a ceiling of ¥2.0 billion annually (including a total of ¥0.2 billion or less for external directors) as per the resolution of the 118th ordinary general meeting of shareholders held on March 27, 2018. The number of directors at the conclusion of the said general meeting of shareholders was six (three of whom were external directors). Furthermore, it was resolved at the 122nd ordinary general meeting of shareholders (March 25,2022) that, separate from the monetary remuneration, up to 86,000 shares would be provided as performance-linked stock compensation (performance share units) (of which, with a maximum of 43,000 shares, the portion equivalent to 50% of the remuneration, etc. based on the aforesaid remuneration policy is provided in monetary remuneration claims for the delivery of shares of the common stock of the Company and the rest in cash) to directors excluding external directors. The number of directors at the conclusion of the said general meeting of shareholders was eight (four of whom were external directors). Basic remuneration for Audit & Supervisory Board members has a ceiling of \10 million per month as per the resolution of the 105th ordinary general meeting of shareholders held on June 29, 2005. The number of Audit & Supervisory Board members at the conclusion of the said general meeting of shareholders was five.
2. The annual incentive of directors for fiscal 2022 indicated above represent the amounts that will be paid upon the resolution of the Board of Directors based on the resolution of the 118th ordinary general meeting of shareholders, as stated in note 1. Regarding the calculation of those amounts, please refer to the following Performance-linked targets, actual performance and payment percentage, etc. of annual incentives paid to directors excluding external directors. The Company has received a proposal from Representative Director Masahiko Uotani to decline 5% of the annual incentive proposed by the Nomination & Remuneration Advisory Committee, taking into account the status of bonuses paid to employees of Group companies in Japan. The Board of Directors has resolved the said proposal (continuing from fiscal 2020 and fiscal 2021, Masahiko Uotani has declined part of his annual incentive). The above amounts of annual incentive have been already adjusted based on the reduced amounts.

3. The amount of long-term incentive-type remuneration (stock compensation) indicated above represents the total amount of the expenses recognized and measured in accordance with IFRS 2 "Share-based Payment" for the fiscal year ended December 31, 2022, on the performance-linked stock compensation (performance share units), upon the approval of the ordinary general meeting of shareholders, in consideration of duties executed by directors. It has been resolved that the portion equivalent to 50% of the remuneration, etc. based on the aforesaid remuneration policy is provided in monetary remuneration claims for the delivery of shares of the common stock of the Company and the rest in cash. The said amount of the expenses recognized includes \2 million in adjustment to the expenses recognized based on the achievement rate of performance indicator of the delivered long-term incentive-type remuneration (stock compensation).
4. In addition, an adjustment of \0.2 million was recorded to the expenses recognized for the fiscal year ended December 31, 2021, on the performance-linked stock compensation (performance share units) delivered to three directors of the Company, at the time the directors served as corporate officers or employee not holding the office of directors.
5. None of the directors or the Audit & Supervisory Board members was paid remuneration other than described above (including that described in notes 1. through 4.).

■ Amounts of Remuneration, etc. to Representative Directors and Directors Whose Total Amount of Remuneration, etc. Exceeded \100 Million for the Fiscal Year Ended December 31, 2022

(Millions of yen)

	Basic Remuneration	Annual Incentive	Total of the left* (a)	Long-Term Incentive (Stock Compensation) (b)	Total [(a)+(b)]
Masahiko Uotani, President and CEO	169	160	329	201	531
Norio Tadakawa Senior Executive Officer	55	23	79	44	124

*Total remuneration in cash that has been confirmed by March 2023.

Notes:

1. The annual incentive of directors for fiscal 2022 indicated above represent the amounts that will be paid upon the resolution of the Board of Directors based on the resolution of the 118th ordinary general meeting of shareholders, as stated in note 1. of Amount of Remuneration, etc. to Directors and Audit & Supervisory Board Members for the Fiscal Year Ended December 31, 2022. The Company has received a proposal from Representative Director Masahiko Uotani to decline 5% of the annual incentive proposed by the Nomination & Remuneration Advisory Committee, taking into account the status of bonuses paid to employees of Group companies in Japan. The Board of Directors has resolved the said proposal (continuing from fiscal 2020 and fiscal 2021, Masahiko Uotani has declined part of his annual incentive). The above amount of annual incentive has been already adjusted based on the reduced amount.
2. The amount of long-term incentive-type remuneration (stock compensation) indicated above represents the total amount of the expenses recognized for the fiscal year ended December 31, 2022, recognized and measured in accordance with IFRS 2 "Share-based Payment" on the performance-linked stock compensation (performance share units), upon the approval of the ordinary general meeting of shareholders, in consideration of duties executed by directors. The said amount of the expenses recognized includes an adjustment of 2 million to the expenses recognized based on the achievement rate of performance indicator of the delivered long-term incentive-type remuneration (stock compensation).
3. No director above was paid remuneration other than described above (including that described in notes 1. through 2.).

■ Performance-linked targets, actual performance and payment percentage, etc. of annual incentive paid to directors excluding external directors

(Billions of yen)

Performance Evaluation Indicators	Fluctuation Range of Payment Percentage	Targets for Payment Factor at 100%	Actual Performance	Achievement Rate	Payment Factor Calculated Based on the Target Achievement Rate
Consolidated Net Sales	0%–200%	1,075.0	1,067.4	99.3%	0%
Core Operating Profit		62.0	51.3	82.8%	0%
Profit Attributable to Owners of Parent	–	(Note 4.)	34.2	–	Not subject to lowering of the payment amount percentage by thresholds
Performance of Business in Charge	0%–200%	(Note 1.)			
Personal Performance Evaluation		(Note 2.)	–	–	(Note 2.) 80.0% (Average)
				Total payment rate	(Note 3.) 87.8%

Notes :

1. Key performance evaluation indicators such as net sales, profits and cost indices, etc. are set to measure performance of respective business. Specific figures are not disclosed.
2. Each individual's priority targets are set in personal performance evaluation considering not only a single fiscal year performance but also initiatives to realize long-term strategies that reflect management approach and Corporate Philosophy, such as improvement in organizational skills. In the fiscal year ended December 31, 2022, although there was intermittent impact in China and Japan from the prolonged conflict in Ukraine, which

began at the beginning of the year, and the COVID-19 pandemic, we received a proposal from the Nomination & Remuneration Advisory Committee to make a partial adjustment of the payment percentage based on the assessment at the personal performance evaluation in response to a significant decrease in the overall payment percentage due to a certain amount of impact on the Company, and the Board of Directors sufficiently deliberated on the matter. In this deliberation, the Company received a proposal from Representative Director Masahiko Uotani to decline 5% of the annual incentive proposed by the Nomination & Remuneration Advisory Committee, taking into account the status of bonuses paid to employees of Group companies in Japan. The Board of Directors has resolved the said proposal (continuing from fiscal 2020 and fiscal 2021, Masahiko Uotani has declined part of his annual incentive). The above payment factors, etc. have been already adjusted based on the reduced amount.

3. The total payment rate is the ratio of the actual amount paid to the target amount of annual incentive for directors.
4. Net profit attributable to owners of parent is set as a benchmark for the Nomination & Remuneration Advisory Committee to discuss the notion of lowering the payment percentage in the event that profit attributable to owners of parent falls below certain thresholds set.

■ Performance-linked targets, actual performance and payment percentage, etc. of long term incentive-type remuneration granted for fiscal 2019 and paid to directors excluding external directors

Performance Evaluation Indicators			Fluctuation Range of Payment Percentage (Note 3)	Weight	Targets for Maximum Payment Percentage	Actual Performance	Achievement Rate against Target for Maximum Payment Percentage	Payment Percentage
The performance-linked portion	Compound average growth rate (CAGR) of consolidated net sales		50%–150% (including fixed portion 50.0%)	45.0%	Compound average growth rate (CAGR) from 2017: 8.0%	0.7%	0.0%	0.0%
	Compound average growth rate (CAGR) of consolidated operating profit			45.0%	Compound average growth rate (CAGR) from 2017: 15.8%	-15.2%	0.0%	0.0%
	Multiple internal and external indicators pertaining to the environment, society and governance (ESG) with focus on the area of "empowered beauty"	Ratio of female managers in Japan		2.0%	40% in the final fiscal year of the three-year period	36%	0.0%	0.0%
		Ratio of female leaders in overseas		2.0%	50% in the final fiscal year of the three-year period	53%	100.0%	2.0%
		MSCI Japan Empowering Women Select Index		1.0%	Continuing adoption as main stock in the final fiscal year of the three-year period	Continued adoption as 2nd place in 2021	100.0%	1.0%
		Dow Jones Sustainability Indices (DJSI)		5.0%	Difference between top rated companies of DJSI World and DJSI Asia Pacific in the final fiscal year of the three-year period: Average 90 to 100 percentiles	97%iles	100.0%	5.0%
Fixed portion				–	–	–	–	50.0%
Consolidated ROE			thresholds	–	Threshold target: Average of 5.0% or more in the past 10 years	6.8%	Achieved	–
					Total payment rate	58.0% (including fixed portion 50.0%)		

Notes :

1. The period of evaluation for the performance-linked stock remuneration (performance share units) granted for fiscal 2019 is from January 1, 2019 to December 31, 2021.
2. As for performance indicators, from the perspective of creating corporate value from both aspects of economic and social values, the Company has adopted the compound average growth rate (CAGR) of consolidated net sales and the compound average growth rate (CAGR) of corporate operating profit as indicators related to economic value among corporate value, and the multiple internal and external indicators pertaining to the environment, society and corporate governance (ESG) as benchmarks on creation of social value.
3. Since the fixed portion (50%) is set, the fluctuation range of the total payment percentage, which is the sum of the fixed portion and the performance-linked portion, is from 50% to 150%.
4. Consolidated ROE is set as a benchmark for the Nomination & Remuneration Advisory Committee to discuss the notion of lowering the percentage amount of payment of the performance-linked portion in the event that consolidated ROE falls below certain thresholds set.

Audit Structure

Internal Audit

The Internal Audit Department evaluates the validity and effectiveness of risk management and offers advice and proposals for its improvement while verifying the establishment and operation of internal controls throughout the Group in terms of "the effectiveness and efficiency of operations ," "the reliability of financial reporting," "compliance with related laws and regulations, and company internal regulations," and "asset preservation" from a comprehensive perspective. The audit results are reported to the Representative Director, Chairman and CEO; Director, Chief Financial Officer; and Audit & Supervisory Board members every month and to the Board of Directors periodically.
In addition, regarding internal controls over financial reporting, the Internal Audit Department, as an independent division, summarizes and reviews the evaluation results of internal controls throughout the Group, in accordance with the internal control reporting system based on the Financial Instruments and Exchange Act, to conduct a final evaluation. The evaluation results are reported to the Representative Director, Chairman and CEO; Director, Chief Financial Officer; and Audit & Supervisory Board members every month and to the Board of Directors and the Audit & Supervisory Board periodically.
Additionally, we recognize that promoting the utilization of the three lines model is a part of our corporate governance activities, and in collaboration with the business divisions on 1st line and the global headquarters functional divisions and regional headquarters on the 2nd line, the Internal Audit Department on the 3rd line is implementing activities to develop and improve risk scenarios and countermeasures thereto in order to promote sound growth strategies and achieve sustainable improvement of corporate value. Furthermore, risk assessments and the internal audits for specialized areas, e.g. information security, product quality are mainly conducted by the relevant departments.
The Internal Audit Department reports directly to the Representative Director, Chairman and CEO to maintain independence and objectivity and aggressively puts a new framework in place to respond to globalization in business, such as assigning six regional auditors to EMEA, the Americas, Asia Pacific, and China (as of December 31, 2022), in addition to the 19 staff members belonging to the department (as of December 31, 2022).
Furthermore, a risk assessment and an internal audit for specialized areas, i.e., information security and product quality, are mainly conducted by relevant divisions.

Audit & Supervisory Board Members’ Audits and Initiatives toward Strengthening Their Functions

Shiseido's Audit & Supervisory Board consists of two standing members and three highly independent external members. They monitor the legality and appropriateness of directors' performance by attending Board of Directors meetings and other important meetings. Additionally, three audit & supervisory board members (external) offer advice, proposals and views from an independent perspective, based on their abundant experience and insight in their respective fields.
Representative directors and audit & supervisory board members meet regularly to exchange opinions on actions that will resolve corporate governance issues. The Company maintains a framework to ensure that audit & supervisory board members discharge their duties effectively, such as setting up a supporting group for audit & supervisory board members.

Accounting Audits

The Company's accounting audit is conducted by KPMG AZSA LLC, an accounting auditor pursuant to the Companies Act and the Financial Instruments and Exchange Act.
The names of certified public accountants that have conducted auditing and the name of auditing firm are as follows:

Matters Concerning Accounting Auditor (As of March 25, 2022)

1. Name of Accounting Auditor
   KPMG AZSA LLC
2. Period of the consecutive audit by the Accounting Auditor
   The Company selected KPMG AZSA LLC as its accounting auditor on June 29, 2006. Thus, the period of the consecutive audit by the accounting auditor is 16 years of this fiscal year.
3. Names of certified public accountants engaged in audit work
   Masakazu Hattori (consecutive auditing period: three years)
   Kentaro Hayashi (consecutive auditing period: three years)
   Unshil Kang (consecutive auditing period: two year)
   Note:
   The rotation of engagement partners is carried out appropriately in accordance with the policies established by KPMG AZSA LLC.
   The rotation of engagement partners at KPMG AZSA LLC is regulated by laws, regulations on independence, and the audit firm's policies (including policies of KPMG International Limited) regarding the maximum period of time for involvement in audit and attestation services. KPMG AZSA LLC monitors rotation status from the perspective of continuous involvement and independence, including assistant auditors.
4. Composition of assistant auditors
   The composition of personnel other than engagement partners is 16 certified public accountants, 9 qualified professionals, and 25 others (tax-related and IT audit staff, etc.)
5. Selection policy, reason of the selection and evaluation of the Accounting Auditor
   The selection and dismissal of the Company's accounting auditor is determined by the unanimous consent of members of the Audit and Supervisory Board after discussions based on the results of evaluations by each member of the Audit & Supervisory Board, as well as evaluations by the Director and CFO, and heads of related departments including Financial Accounting Department and Internal Audit Department.
   The Company's policy for decision-making on dismissal or non-reappointment of the accounting auditor is as follows. In the event that the Company determines that keeping the accounting auditor causes material trouble to the Company for the reasons, among others, that the accounting auditor has violated its duties, negated its duties, or behaved in a manner inappropriate of an accounting auditor, the Audit & Supervisory board shall dismiss the accounting auditor pursuant to Article 340 of the Companies Act. Furthermore, suppose it is deemed that the accounting auditor is unable to carry out its duties duly or change of the accounting auditor to another audit firm is reasonably required to enhance the appropriateness of the accounting audit. In that case, the Board of Directors shall submit a proposal to the general meeting of shareholders for the dismissal or non-reappointment of the accounting auditor in accordance with the resolution of the Audit & Supervisory Board on the proposal resolved in consideration of the opinion of the executive bodies.
   The Audit & Supervisory Board evaluated the accounting audits of the accounting auditor for Fiscal 2022 in line with the following items and processes and resolved to reappoint the accounting auditor for Fiscal 2023.
   The Audit & Supervisory Board confirms such items as the appropriateness of the accounting auditor, quality control, independence and professional competence of the audit team, audit plan, and communication with Audit & Supervisory Board members. Prior to the reappointment resolution, the Audit & Supervisory Board conducts the hearings on the accounting auditor with heads of business departments (Financial Accounting Department and Internal Audit Department) and exchanges opinions with the Director and CFO at Audit & Supervisory Board meetings.

Mutual Cooperation among Internal Audits, Audit & Supervisory Board Members’ Audits and Accounting Audits

The Company, in order to improve the effectiveness and efficiency of the so-called three-pillar audit system (internal audits, audit & supervisory board members' audits, and accounting audits), has been making efforts to enhance the mutual cooperation among the parties concerned by such means as arranging regular liaison meetings to report on audit plans and audit results as well as to conduct exchanges of opinions.

Remuneration, etc. to the Accounting Auditor

(Millions of yen)

Category	Amount
Remuneration paid for services rendered as the accounting auditor for the fiscal year ended December 31, 2022	234
Total cash and other remuneration to be paid by the Company and its subsidiaries to the accounting auditor	291

Note: In the audit contract between the Company and its accounting auditor, remuneration paid for audits under the Companies Act and remuneration paid for audits under the Financial Instruments and Exchange Act are not clearly distinguished and cannot be practically separated. Therefore, the total payment for both is shown in "Remuneration paid for services rendered as the accounting auditor for the fiscal year ended December 31, 2022" above.

Reason for Audit and Supervisory Board to Have Agreed to Remuneration, etc. to the Accounting Auditor

The Audit and Supervisory Board of the Company reviewed the status of performance of duties and basis for the calculation of the estimated amount of remuneration in the previous fiscal year as well as the validity of both descriptions in the audit plan prepared by the accounting auditor during the fiscal year and the estimated amount of remuneration, using the "Practical Guidelines for Cooperation with accounting auditors" released by the Japan Corporate Auditors Association as a guide, and by way of necessary documents obtained from directors, internal relevant departments and the accounting auditor as well as interviews to obtain information from them, and determined that the fees, etc. of the accounting auditor were appropriate, in agreement with Article 399, Paragraphs 1 and 2 of the Companies Act.

Details of Services Other Than Audit

The Company entrusted the accounting auditor with "advisory services on the adoption of IFRS" and "documentation work concerning a 'comfort letter' for the issuance of corporate bonds," which are services other than services under Article 2, paragraph (1) of the Certified Public Accountants Act (services other than an audit). The amount of remuneration, etc. is ¥12 million, which is included in the "Total cash and other remuneration to be paid by the Company and its subsidiaries to the accounting auditor" under the "Remuneration, etc. to the Accounting Auditor" above.

Policy Relating to Determination of Dismissal of or Not to Reappoint Accounting Auditor

In the event that the Company determines that keeping an accounting auditor as its accounting auditor causes material trouble to the Company for the reasons, among others, that the accounting auditor has violated its duties, negated its duties or behaved in a manner inappropriate as an accounting auditor, the Audit & Supervisory Board shall dismiss the accounting auditor pursuant to Article 340 of the Companies Act.

Furthermore, in the event that it is deemed that the accounting auditor is unable to carry out its duties duly or change of the accounting auditor to another audit firm is reasonably required to enhance the appropriateness of accounting audit, the Board of Directors shall submit a proposal to the general meeting of shareholders for the dismissal of the accounting auditor or not to reappoint the accounting auditor in accordance with the resolution of the Audit & Supervisory Board on the proposal resolved in consideration of the opinion of the executive agency.

Compliance and Risk Management

Compliance and Risk Management Structure

Compliance and risk management in the Shiseido Group is led by the Risk Management Department established at the Company's global headquarters, which reports into the Office of Chief Legal Officer of the Group. Furthermore, to ensure compliant and fair business activities and implementation of risk countermeasures across the Group, a Risk Management Officer (RMO) is assigned in each regional headquarters. Incidents in Japan and overseas regions are reported, in accordance with certain criteria, to the Risk Management Department through RMOs or the division responsible for the incident. The division, RMO, and the Risk Management Department set up a taskforce as needed and work together toward a speedy resolution. In addition, the Risk Management Department and RMOs conduct regular training and educational activities to raise employees' awareness and knowledge of compliance and risk management.

To oversee compliance and risk management of the Shiseido Group, a Global Risk Management & Compliance Committee chaired by the CEO has been established at the global headquarters. In addition, HQ/SJ Compliance Committee oversees compliance in the Japan region.

Significant matters and progress related to compliance and risk management, including major incidents, are reported/proposed to the Board of Directors through the CEO or the management team.

Risk Management Oversight by the Board of Directors

Risk management oversight on a Group-wide basis is one of the key responsibilities of the Board of Directors. The Board provides feedback on reports from the management on significant matters and progress related to compliance and risk management, as well as confirms background, risk tolerance, and risk limit for matters included in individual reports and proposals. This allows the management to appropriately identify risks and decide whether the risk should be taken, mitigated, or avoided. In addition to receiving individual reports/proposals from the management, the Board compiles risk-related information through collaboration with auditors and the Audit & Supervisory Board for effective risk management oversight.

Enterprise Risk Management

In fiscal year 2022, the Risk Management Department interviewed HQ Executive Officers, Regional CEOs and External Directors for their perception of Group risks. Regional risk assessments and input from relevant functions, as well as insight from external advisors, were also taken into consideration. As a result, the Risk Management Department identified material risks that may impact the key areas of our medium-term strategy, SHIFT 2025 and Beyond. As shown in the table below, the identified risks were evaluated with three axes: "the impact on business," "likelihood," and "vulnerability." Furthermore, the above-mentioned committees and related meetings held discussions to prioritize the risks and consider the status of countermeasures.

＜Risk evaluation methodology＞

Impact on business	・Quantitative impact on business performance (e.g., topline sales) in case of manifestation ・Qualitative impact on our corporate/brand image and culture
Likelihood	・Likelihood and timing of risk manifestation

Vulnerability	• Preparedness to the risk • Controllability of the manifestation of the risk due to external factors

Total 21 material risks identified through our risk assessment have been organized into three risk categories: "Consumer and Social-related Risks," "Operation & Fundamental Risks," and "Other Risks."

We have identified "Risk Owners" for each risk category in an effort to clarify responsibility for countermeasures. Moreover, we have implemented a transparent monitoring and communicative framework within the Global Risk Management & Compliance Committee and the Board of Directors to regularly discuss and assess our progress in addressing these risks.

Business and Other Risks

Consumer & Social related Risks	Operation & Fundamental Risks	Other Risks
• Changes in Consumer Values • Speed of Digital Acceleration • Pace of Cutting-Edge Innovation • Corporate and Brand Reputation • Environment and Climate Change • Diversity & Inclusion • Natural and Human-Made Disasters • Infectious Disease • Geopolitical Tensions	• Corporate Culture and Acquisition / Securing Outstanding Human Capital • Business Structure Transformation • Operating Infrastructure • Supply Network • Compliance • Regulatory • Quality Assurance • Governance • Information Security & Privacy	• Exchange Rate Fluctuations • Business Investment • Material Litigation

Whistleblowing System

The Company has established a whistleblowing system to discover acts which violate laws, the Articles of Incorporation, or other regulations within the Shiseido Group and to promptly correct such issues and has received reports of all forms of misconduct, including harassment and bribery, as well as any potential misconduct. In the Japan region, the Company has established an internal hotline managed by in-house counselors, an external hotline operated by a third party, and the HQ/SJ Compliance Committee Hotline through which employees are able to make direct reports to the Committee Chair. The hotlines allow anonymous reporting. The Company has also created a whistleblowing hotline for reports related to corporate officers and promotes the use of these hotlines. For other regions, the Company has set up local/regional hotlines, in addition to a Shiseido Group Global Hotline at the global headquarters for direct reports from employees worldwide. These hotlines contribute to strong compliance/governance structure of the entire Group.

To secure effectiveness of the whistleblowing system, the Company has developed and promotes internal regulations to protect whistleblowers' personal information and confidentiality. These regulations also protect whistleblowers from retaliation such as dismissal from their position or workplace.

Internal Control Systems of the Company

1. System under Which Execution of Duties by Directors and Employees of the Company and All Group Companies Is Ensured to Comply with Laws and Regulations and the Articles of Incorporation of the Company; System under Which the Appropriateness of Business of the Whole Group Is Ensured

The Board of Directors shall determine important matters which will affect the Company and its subsidiaries and affiliates as a Group.

The representative directors of the Company shall regularly report the status of execution of business to the Board of Directors. External directors shall be elected to strengthen and maintain the Board of Directors' supervisory functions in regard to operational execution. The audit & supervisory board members audit legality and appropriateness of the directors' execution of business. Upon request of any audit & supervisory board member, directors and employees shall report the status of execution of business to the audit & supervisory board members.

The Company has defined THE SHISEIDO PHILOSOPHY, shared across the Group and built upon three elements: OUR MISSION, which determines our purpose, OUR DNA, which embodies our unique heritage of over 150 years, and OUR PRINCIPLES (TRUST 8), which is a mindset to be shared by each and every Shiseido Group employee in their work. THE SHISEIDO PHILOSOPHY, together with "Shiseido Code of Conduct and Ethics" which set out action standards for business conduct with the highest ethical principles, promote corporate activities that are both legitimate and fair. (*)

The Company shall establish a basic policy and rules in line with "Shiseido Code of Conduct and Ethics" with which the whole Shiseido Group is required to comply. Every Group company and business site shall be fully aware of this policy and rules, along with THE SHISEIDO PHILOSOPHY, so that environments for the formulation of detailed internal regulations of the Company will be created at every Group company and business site.

The Committee that oversees compliance and risk management has been set up in the Company, and while coordinating with organizations that have been set up to fulfill the compliance and risk management functions in the respective regional headquarters located in the major regions across the globe, this committee shall be responsible for corporate quality improvement by enhancing legitimate and fair corporate activities of the Group, and risk management. The Committee shall propose and report important matters and the status of their progress to the Board of Directors through the Representative Director as necessary.

The Company deploys a person in charge of promoting legitimate and fair corporate activities of the Group and risk management at each Group company and business site, plans and promotes regular training and educational activities on corporate ethics, and responds to incidents and manages risks. The department in charge of risk management and the Committee that oversees compliance and risk management will share information regularly with the persons in charge deployed within each Group company and business site.

For the purpose of detection and remediation of types of conduct within the Group that are in violation of laws, the Articles of Incorporation, and internal regulations of the Shiseido Group, the Company shall set up, as a contact for whistle-blowing, a hotline in each Group company as well as a hotline where employees can directly report and consult with the officer in charge of risk management. In the Japan region, the Company shall establish one hotline as an in-house-counselor staffed internal point of contact, and one outside-counselor-staffed external point of contact.

In accordance with the internal regulations of the Company pertaining to internal auditing, internal auditing shall be conducted with respect to the whole Group to audit the appropriateness of business. The results of internal audits shall be regularly reported to the representative director, chief financial officer, and Audit & Supervisory Board members. In addition, reports shall be made regularly to the Board of Directors.

*Basic Policy on Exclusion of Anti-Social Forces and Its Implementation Status
"Shiseido Code of Conduct and Ethics" declare that "we do not have relationships with individuals or organizations that engage in illegal activities such as threatening public order or safety. We also do not respond to any requests for money or cooperation from such individuals or organizations." A coordination office is established in the department in charge of risk management for the purpose of intensively collecting information, while a manual on how to cope with such forces is maintained on the intranet, among other activities. The Company is strengthening its collection of

outside information and cooperation with outside organizations by such means as coordinating with local police offices and having membership in an organization that promotes the exclusion of anti-social forces.

2. System under Which Directors of the Company and All Group Companies Shall Be Ensured to Efficiently Execute Duties

The Company adopted An executive officer system to realize smooth and highly efficient corporate management, wherein functions of directors, who are responsible for decision-making and overseeing execution of business, are separated from those of executive officers, who are responsible for business execution.

A representative director shall coordinate and supervise the Group's overall execution of business operations that are directed towards achieving given corporate targets. executive officers shall fix specified targets in the assigned fields, including all Group companies, and set up a business system by which the targets shall efficiently be achieved.

Furthermore, with respect to the execution of important business, the relevant meeting for decision-making on business execution, consisting of executive officers, shall deliberate the business execution from various viewpoints.

The Board of Directors and the relevant meeting for decision-making on business execution shall confirm the status of progress versus the target and implement necessary improvement measures.

3. System under Which Information Regarding Execution of Business by the Company's Directors Shall Be Maintained and Managed; System under Which Items Regarding Execution of Business by Directors and Employees of All Group Companies Shall be Reported to the Company

Important documents such as minutes of the Board of Directors meetings and of relevant meetings for decision-making on business execution shall be managed pursuant to laws and regulations, and these important documents shall be presented to directors and audit & supervisory board members immediately whenever requested for inspection.

In addition, for information with respect to execution of business by directors and employees, internal regulations of the Company regarding protection of information assets and information disclosure shall be formulated, and the information shall be managed in accordance with them.

Important information regarding the execution of duties by directors and employees of all Group companies shall be reported in a timely manner to the Company by all Group companies in accordance with the internal regulations of the Company that stipulate matters such as reporting to the Company.

4. Regulations Regarding Control of Risk for Loss at the Company and All Group Companies and Other Regulation Systems

Organizations for the purpose of fulfilling the compliance and risk management functions are set up in the respective regional headquarters located in the major regions across the globe, which will be responsible for overseeing risks related to corporate activities through Group-wide cross-sectional communication.

The Committee that oversees compliance and risk management recognizes and evaluates risks associated with management strategy and business execution, and takes necessary measures, or assists the regional headquarters located in the major regions across the globe to prepare their own contingency responses to deal with emergency situations.

In the case of emergency, countermeasure headquarters shall be set up by the regional headquarters of the region where the emergency occurred, the Company, or both, pursuant to the situation, the seriousness of the impact on the Group and other factors, and that headquarters shall take the countermeasures.

5. System Related to Employees to Assist Duties of Audit & Supervisory Board Members When Audit & Supervisory Board Members Request to Do So; and Matters Related to the Independence of Such Employees from Directors; Matters Related to Securing the Effectiveness of Instructions from Audit & Supervisory Board Members to Such Employees

The Audit & Supervisory Board Staff Group shall be established, and employees shall be positioned there to assist the Audit & Supervisory Board and audit & supervisory board members.

In order to ensure the independence of the employees in the Audit & Supervisory Board Staff Group from directors and the effectiveness of instructions from audit & supervisory board members to them, the audit & supervisory board members' consent shall be necessary for determination of personnel matters such as appointments, movements and evaluations of these employees.

6. System under Which Directors and Employees Report to Audit & Supervisory Board Members and Other Systems under Which Any Report Is Made to Audit & Supervisory Board Members; System to Ensure That Persons Are Not Treated Disadvantageously for Making Such Reports to Audit & Supervisory Board Members

Directors and employees shall report the status of their execution of duties to audit & supervisory board members by enabling them to attend meetings of the Board of Directors and other important meetings, and they shall also report results of audit performed by the department in charge of internal auditing to audit & supervisory board members. In addition, the status of business and conditions of assets shall be reported to audit & supervisory board members upon their request.

Separately, the Company shall establish a method through which directors and employees, including those of all Group companies, can directly inform audit & supervisory board members of issues, and shall make this method known throughout the Group.

The Company and all Group companies shall develop internal regulations of the Company to ensure that the said directors and employees are not dismissed, discharged from service or receive any other disadvantageous treatment due to reporting to audit & supervisory board members or informing them of issues, and shall make these regulations known.

7. Matters Regarding Policy on Handling Advance Payment or Repayment of Expenses Resulting from Audit & Supervisory Board Members' Execution of Duties or Other Expenses or Debts Arising from the Said Execution of Duties

Expenses deemed necessary for the execution of duties by the Audit & Supervisory Board and audit & supervisory board members shall be budgeted for and recorded in advance. However, expenses paid urgently or temporarily shall be handled by repaying them afterwards.

8. Other Systems under Which Audit by Audit & Supervisory Board Members Is Ensured to Be Performed Efficiently

Opinion exchange meetings shall be held regularly between representative directors and audit & supervisory board members. The Company shall ensure a system under which corporate audits are implemented efficiently. Liaison meeting shall be held among audit & supervisory board members, the accounting auditor and the internal auditing department upon request of audit & supervisory board members. In addition, audit & supervisory board members shall be ensured to attend various meetings.

(As of December 27, 2022)